RESERVE BANK OF AUSTRALIA

Pre Exam Webinar

October 2026

Alex Symonds, Emma Chow
and Jack Harden

Outline

Current Economic Conditions

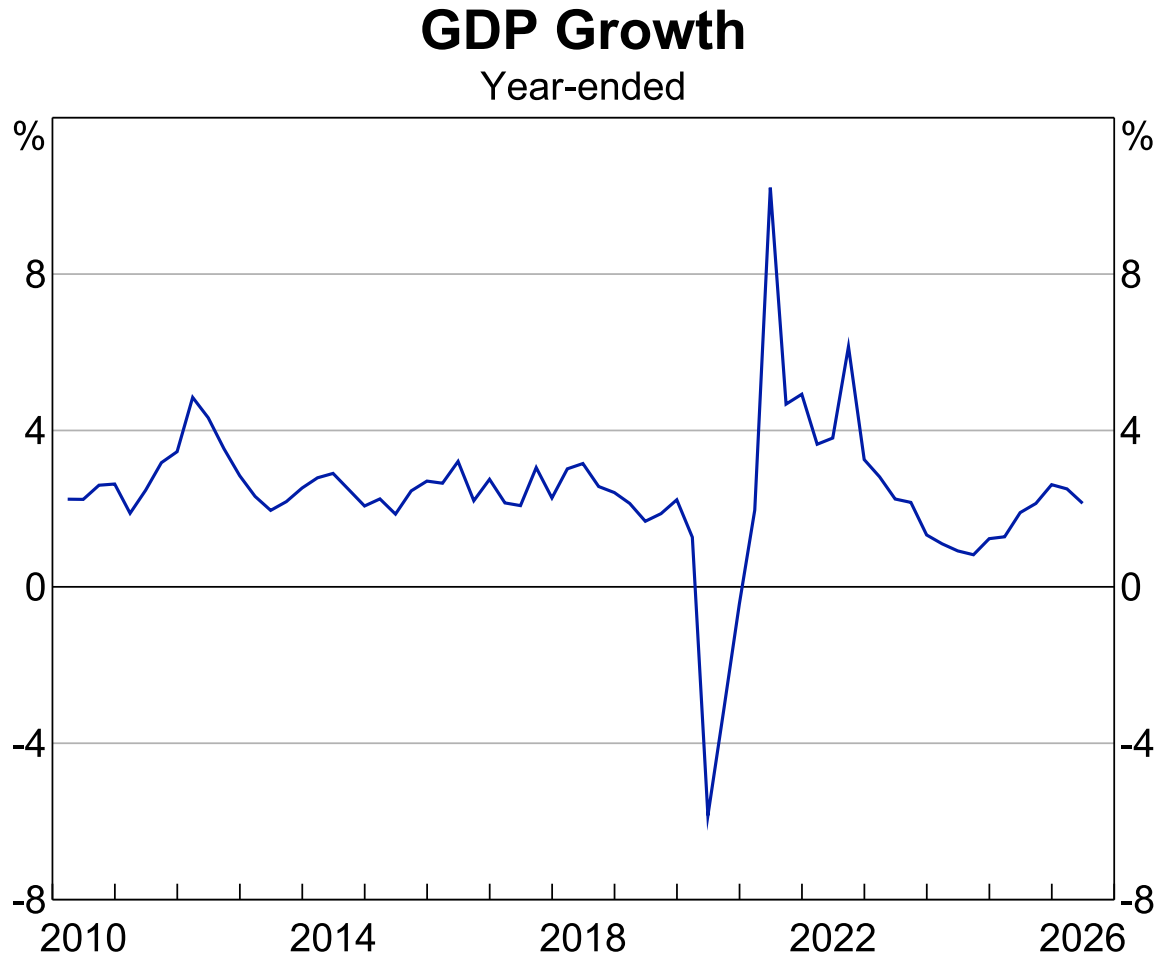
- Economic growth
- Inflation
- Unemployment Rate
- Cash Rate

Q&A

1

Current Economic Conditions

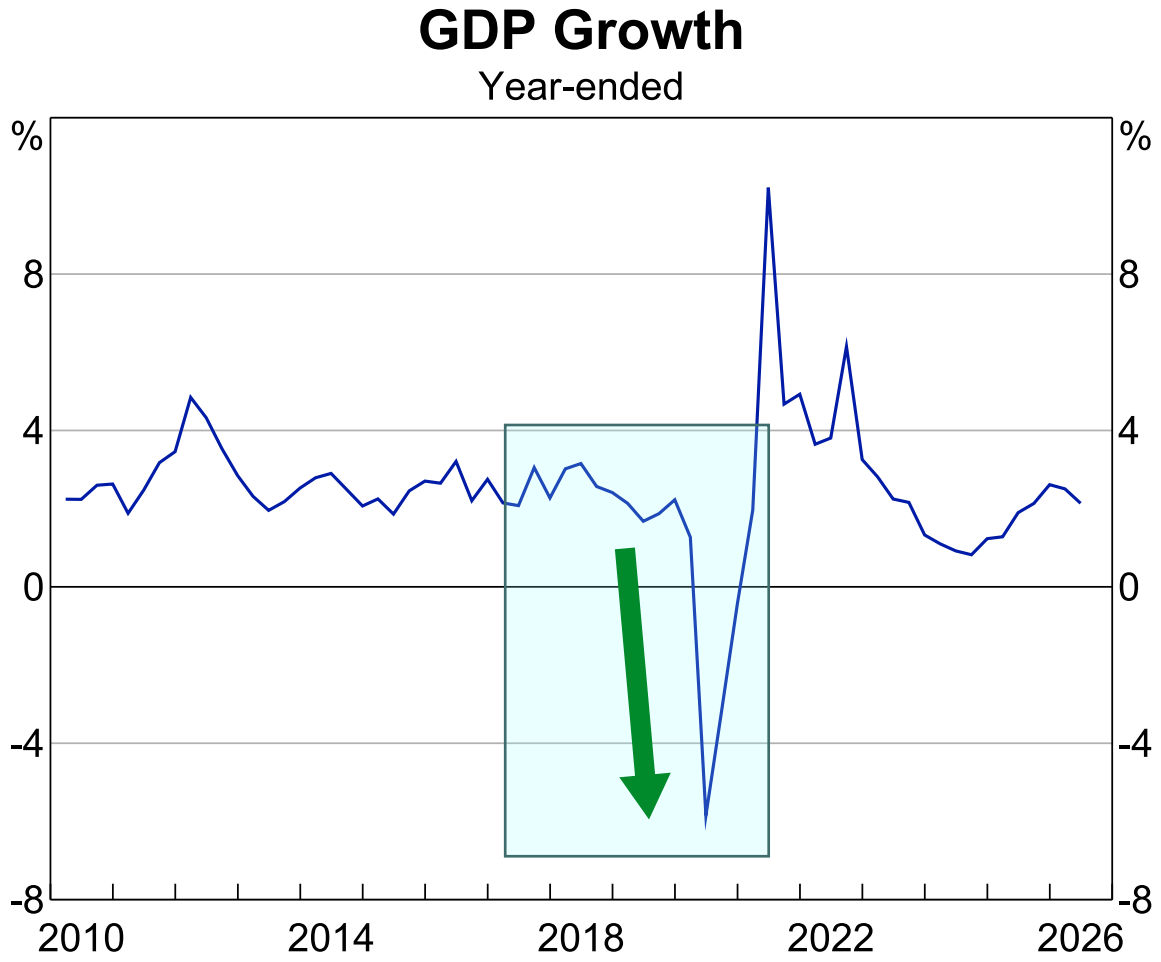
Economic Growth



Source: ABS.

Economic Growth

- Gross Domestic Product (GDP) fell sharply during the pandemic



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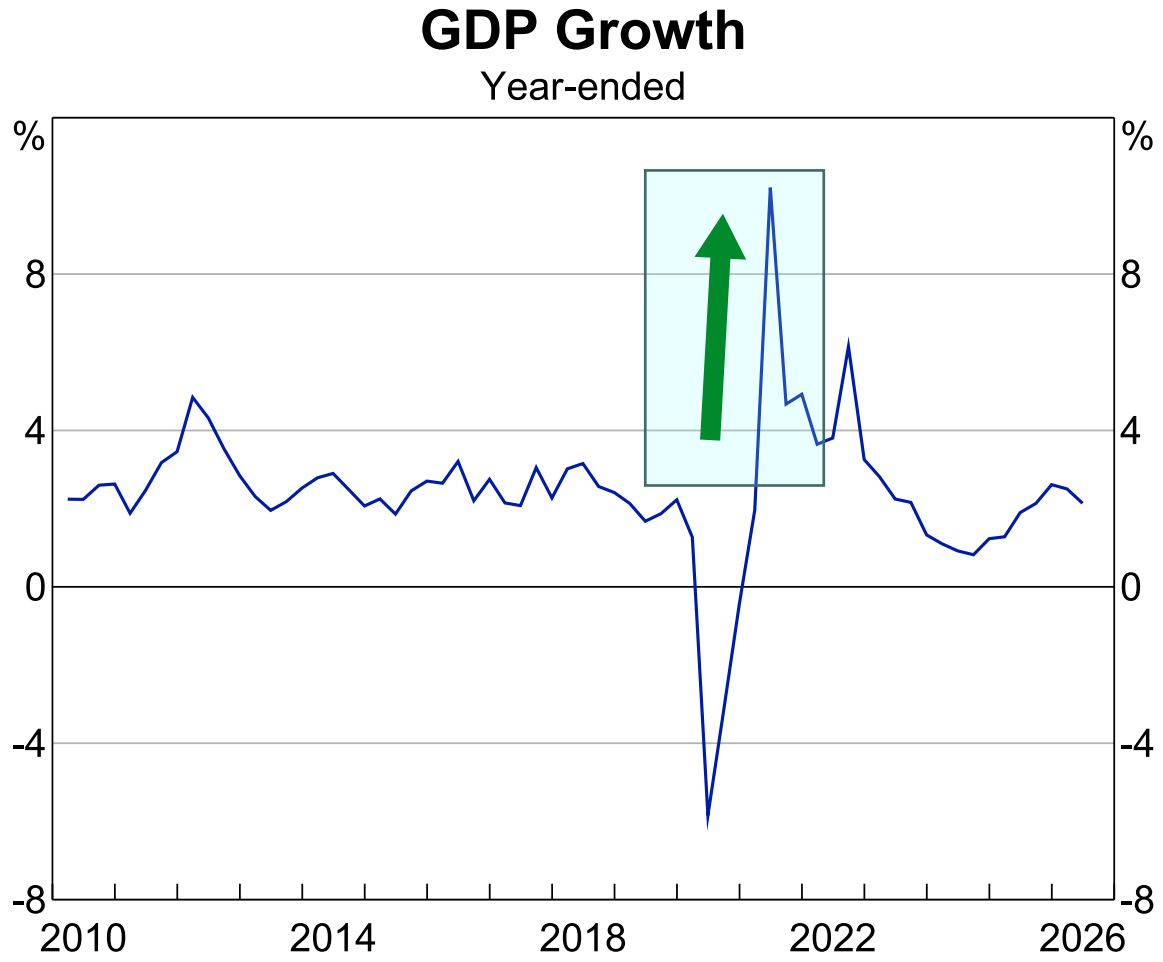
Economic Growth

- Gross Domestic Product (GDP) fell sharply during the pandemic
- Growth rebounded strongly as restrictions eased



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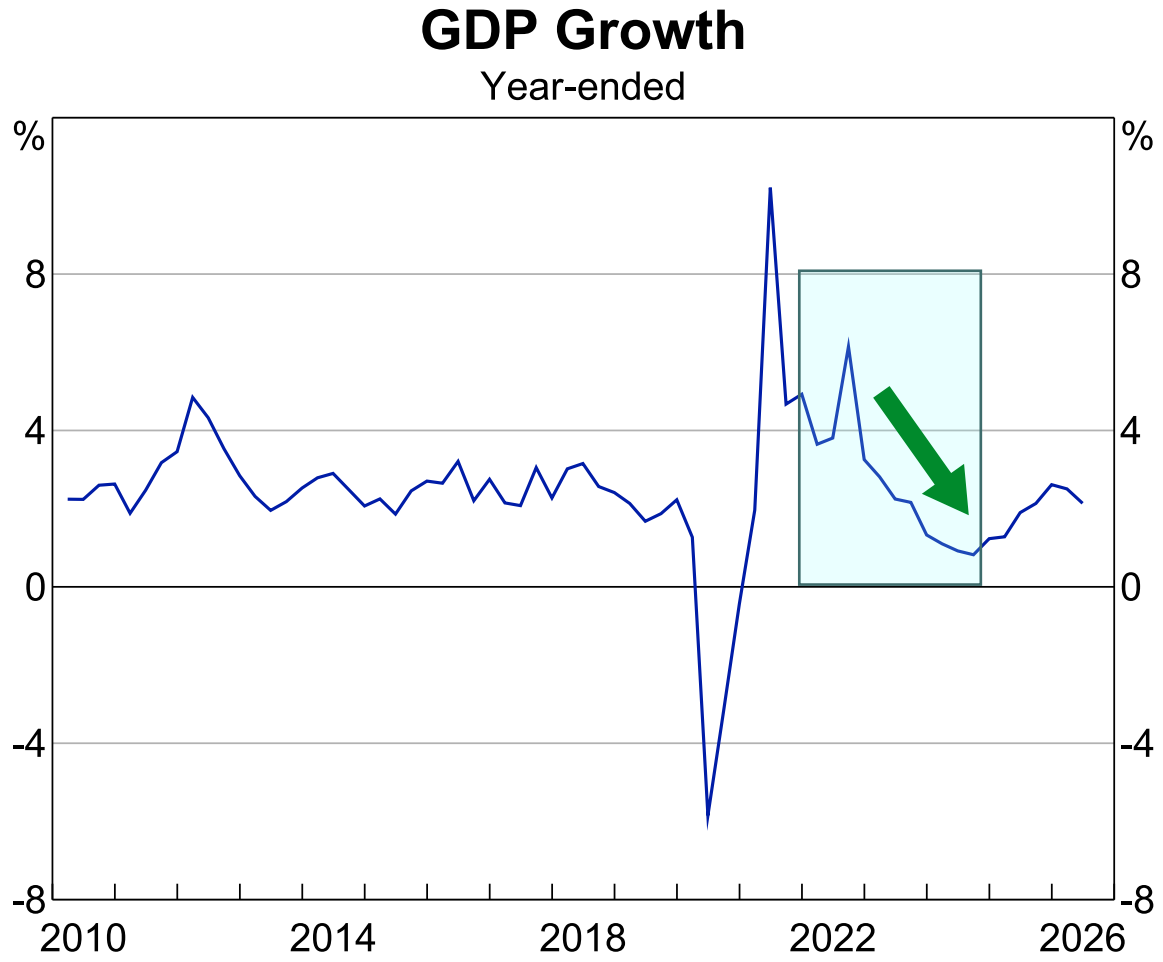
- Growth rebounded strongly as restrictions eased
- Growth slowed as higher interest rates slowed spending



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Economic Growth

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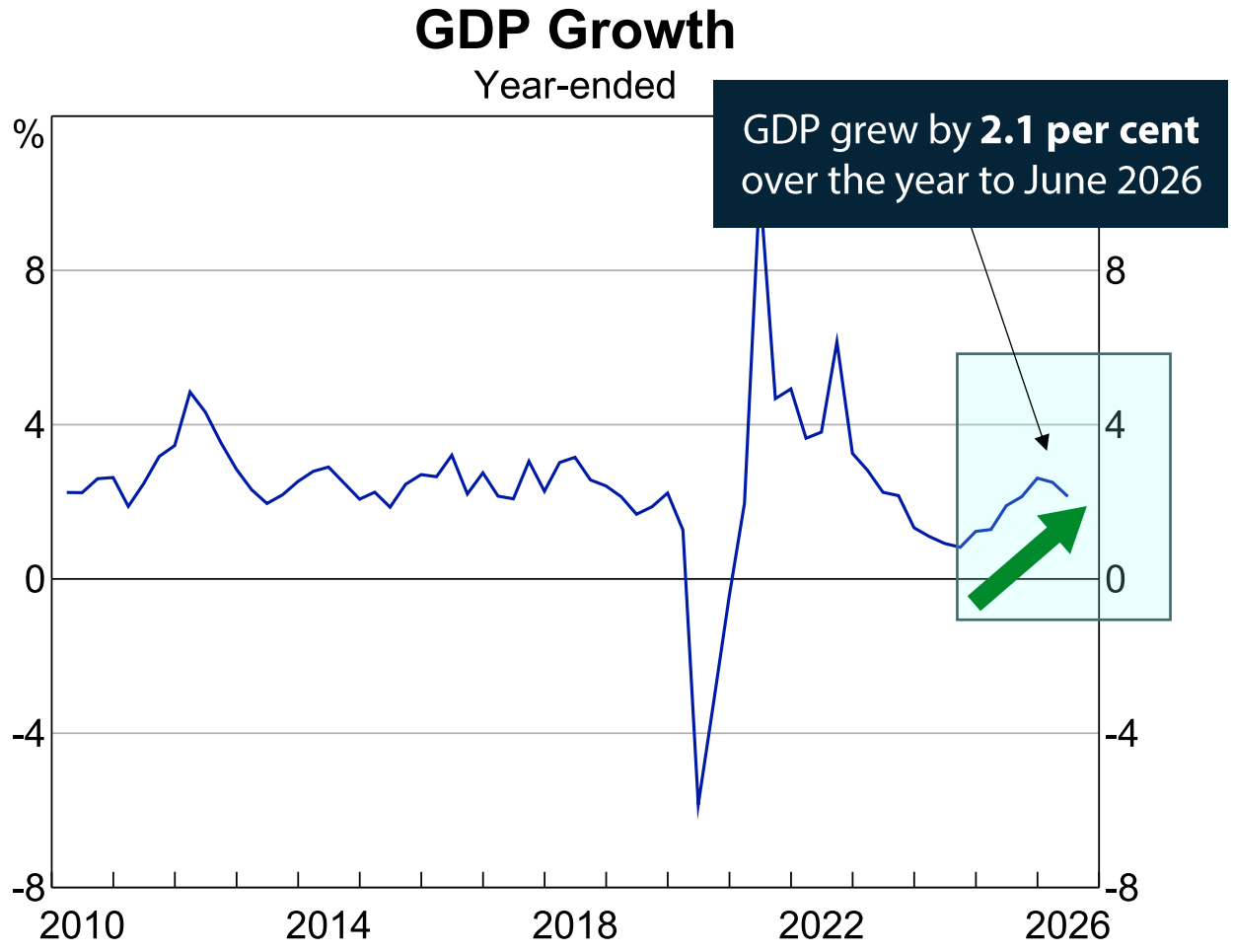
- Growth has started to pick up again recently, driven by private demand



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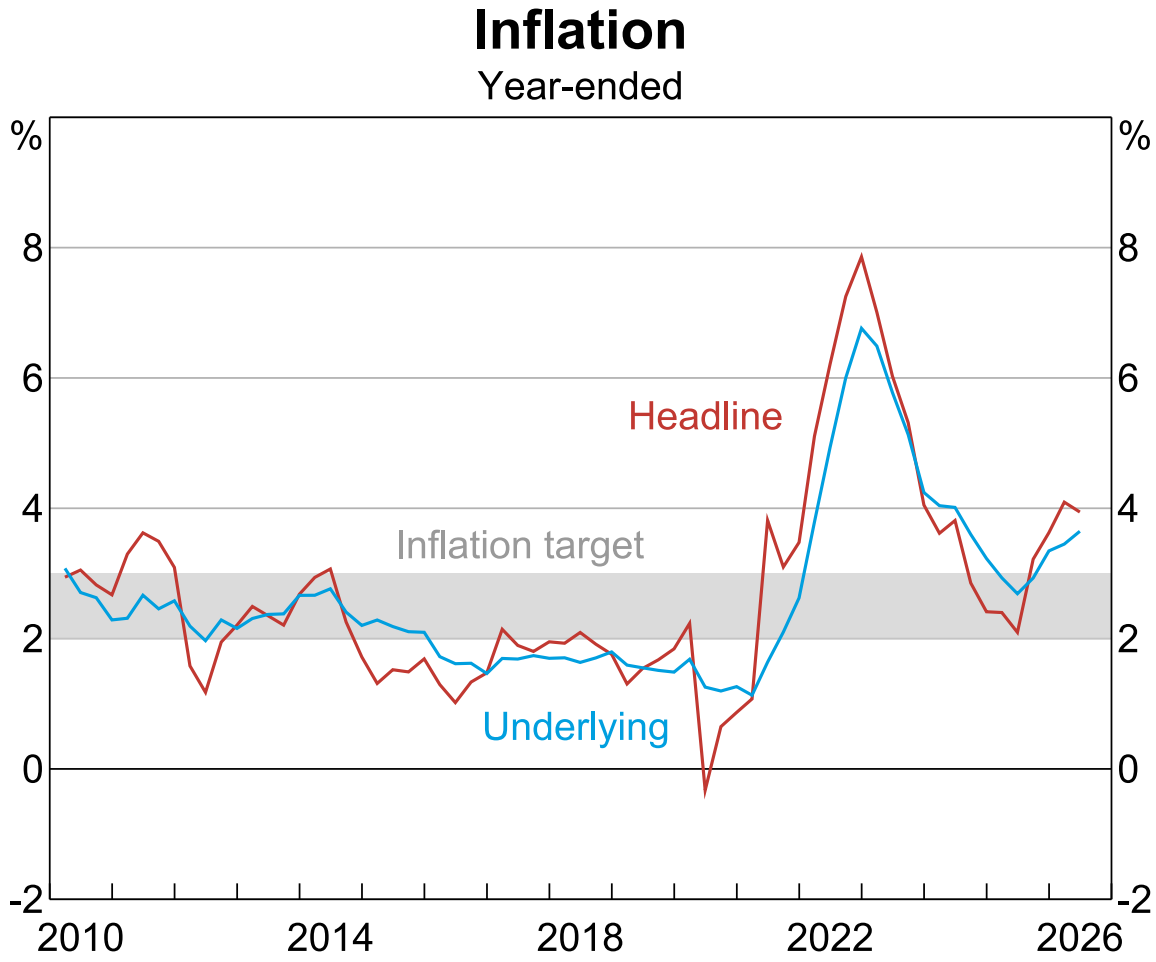

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Inflation

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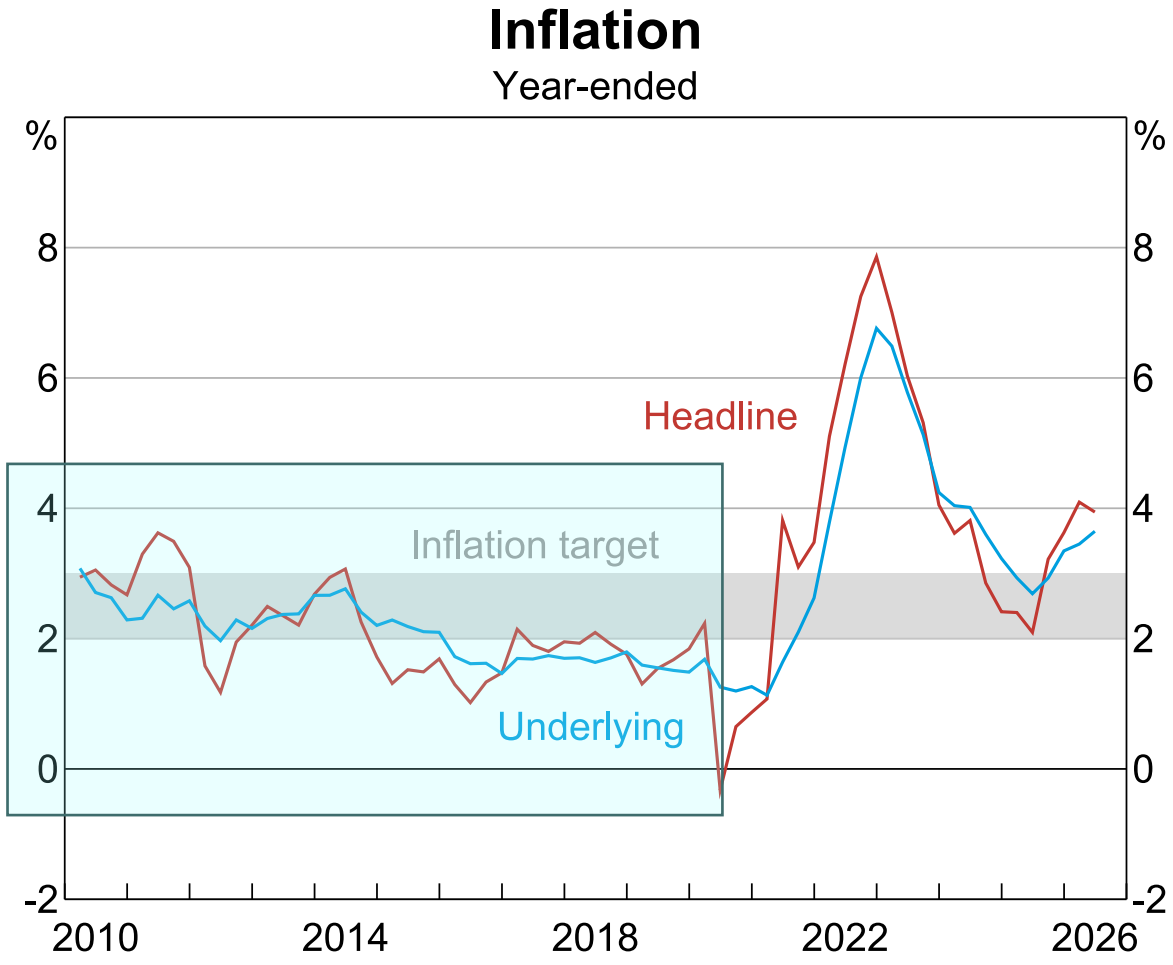

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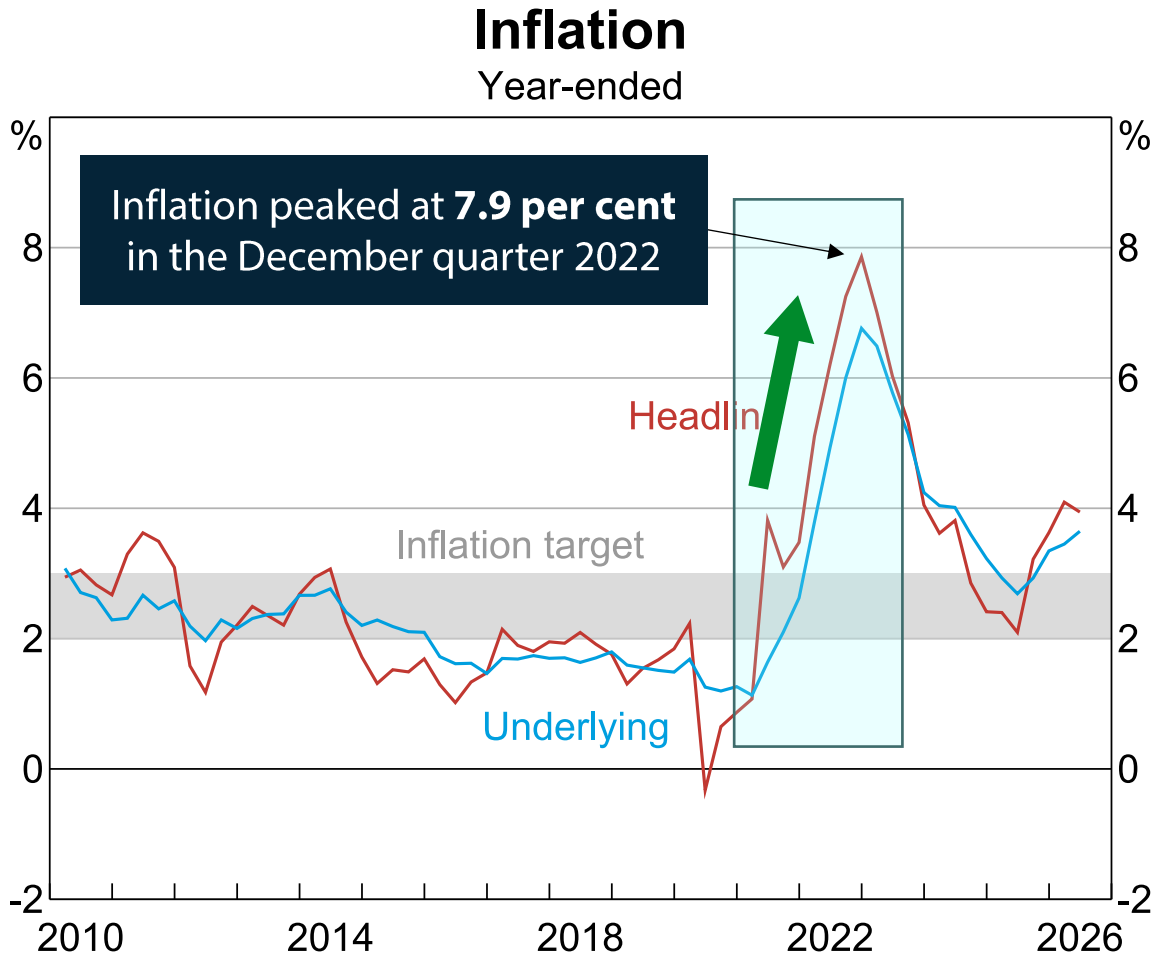

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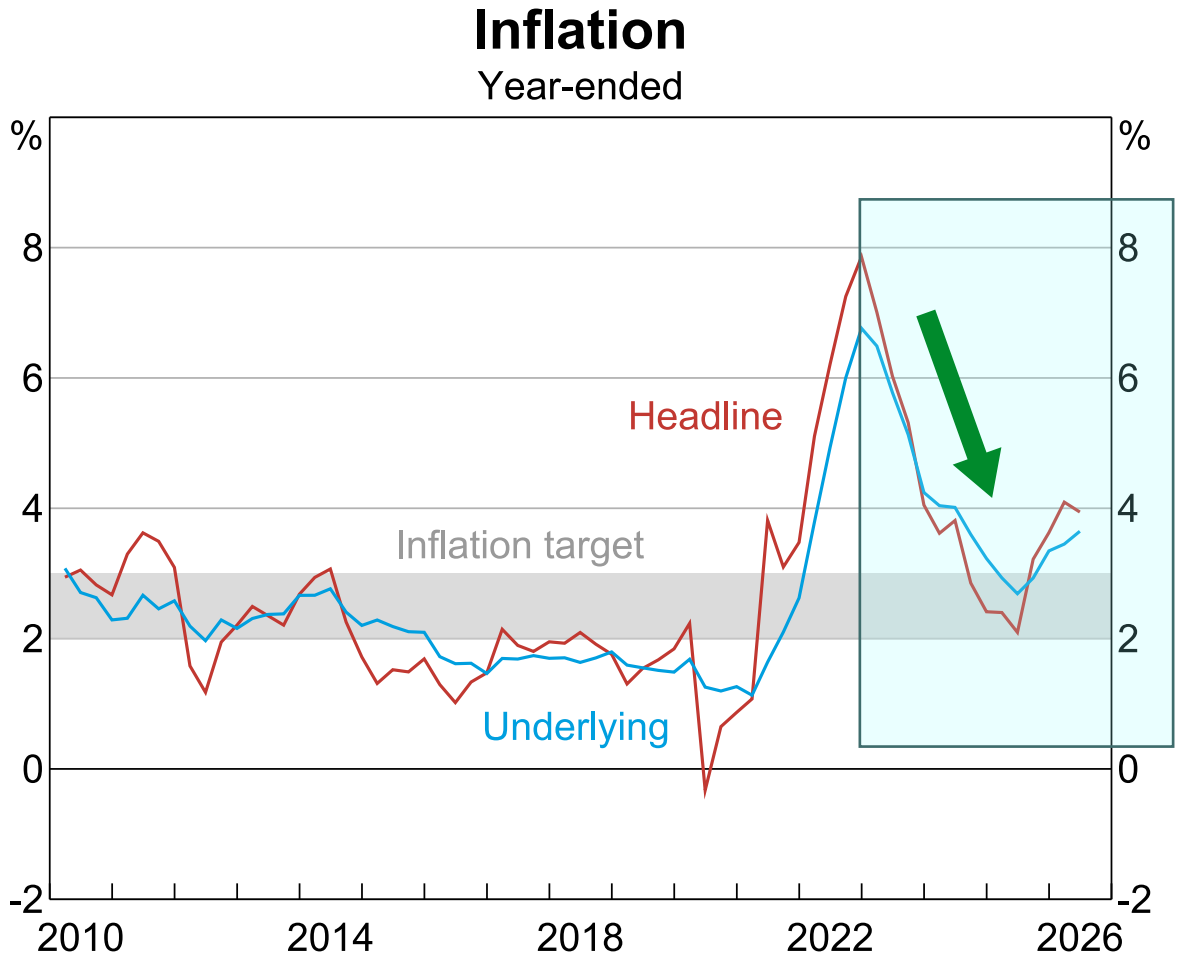
Inflation

- Prior to the pandemic, inflation was mostly within or below the RBA's target range.
- Inflation rose sharply following the pandemic
- Inflation returned to the RBA's 2-3 per cent target range in late 2024 before picking up again



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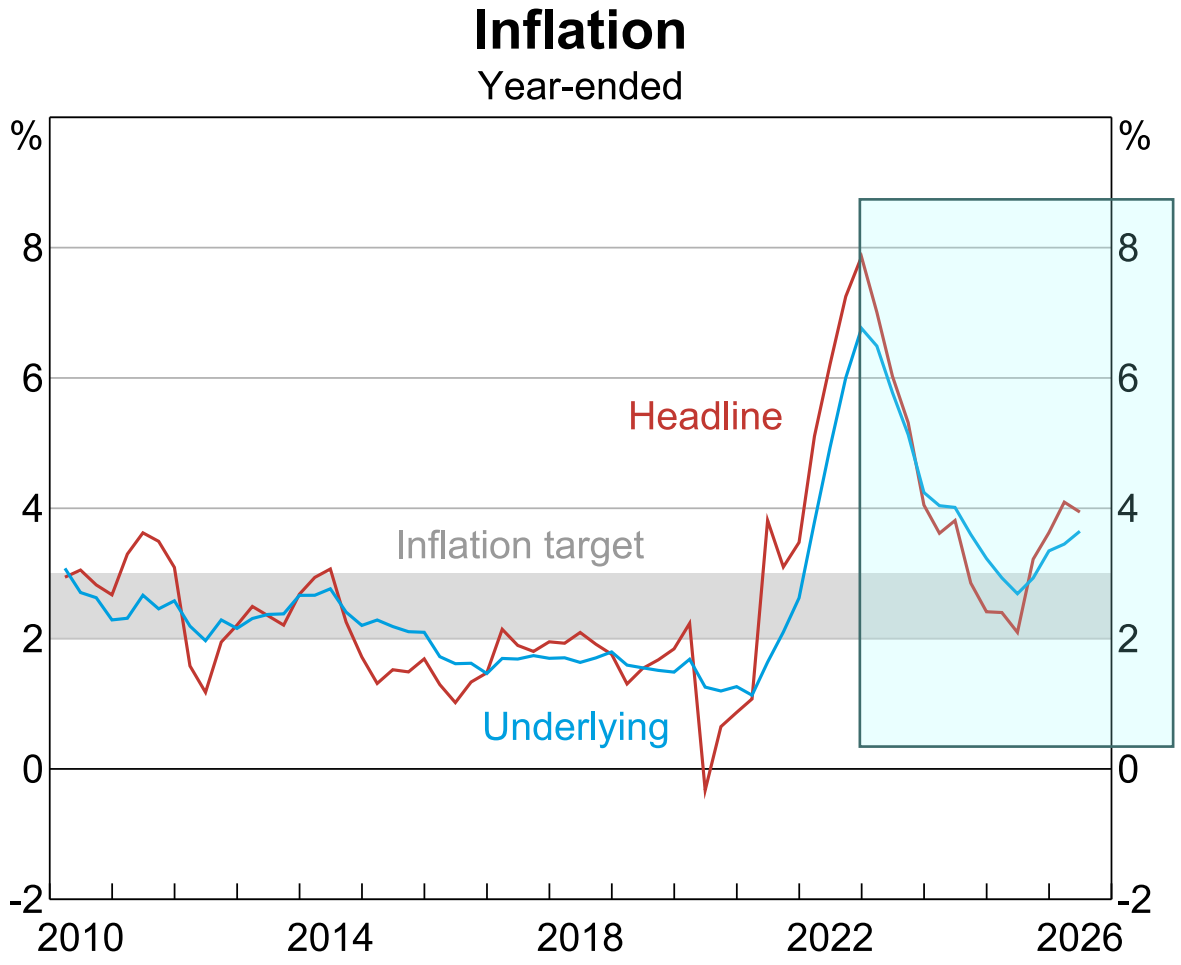

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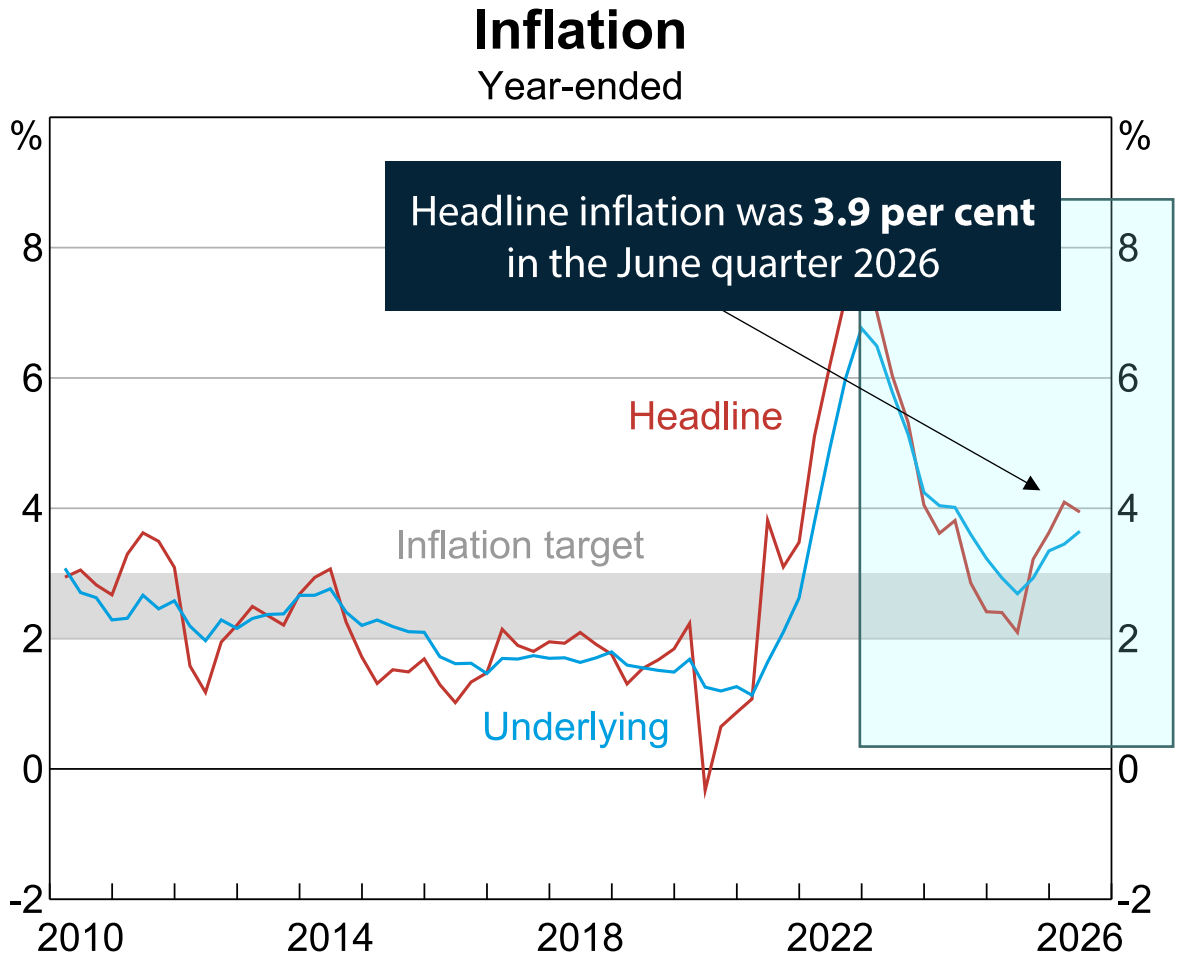

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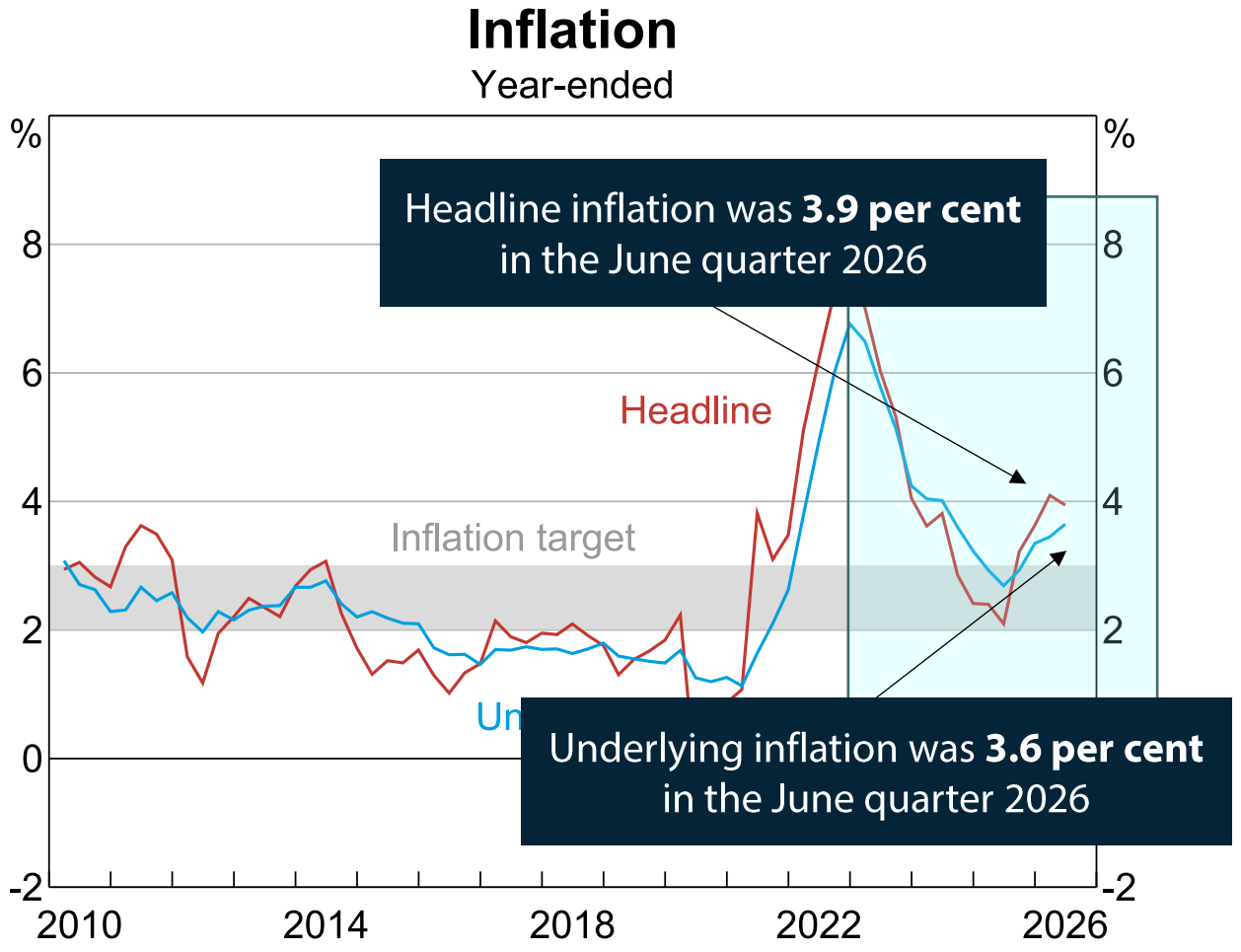

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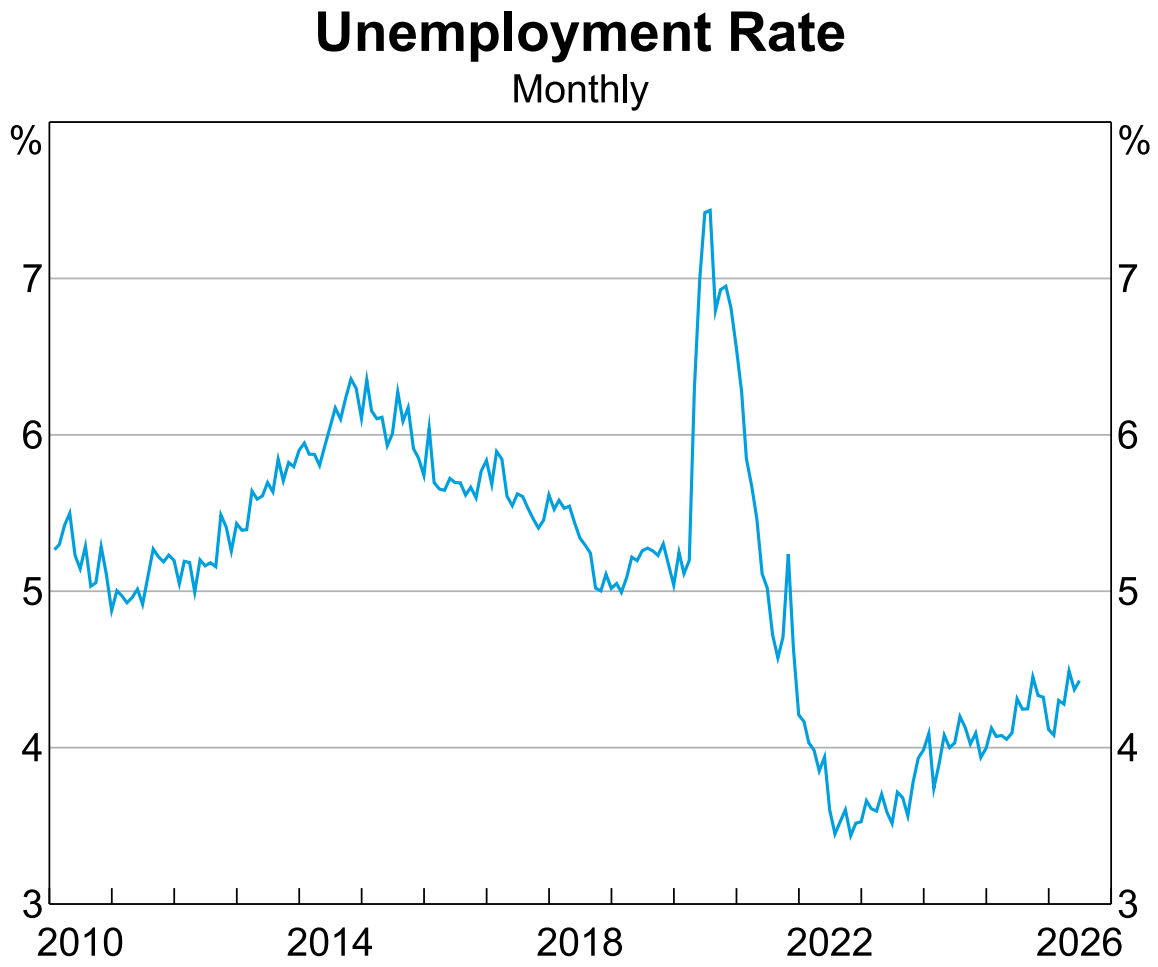
Unemployment Rate



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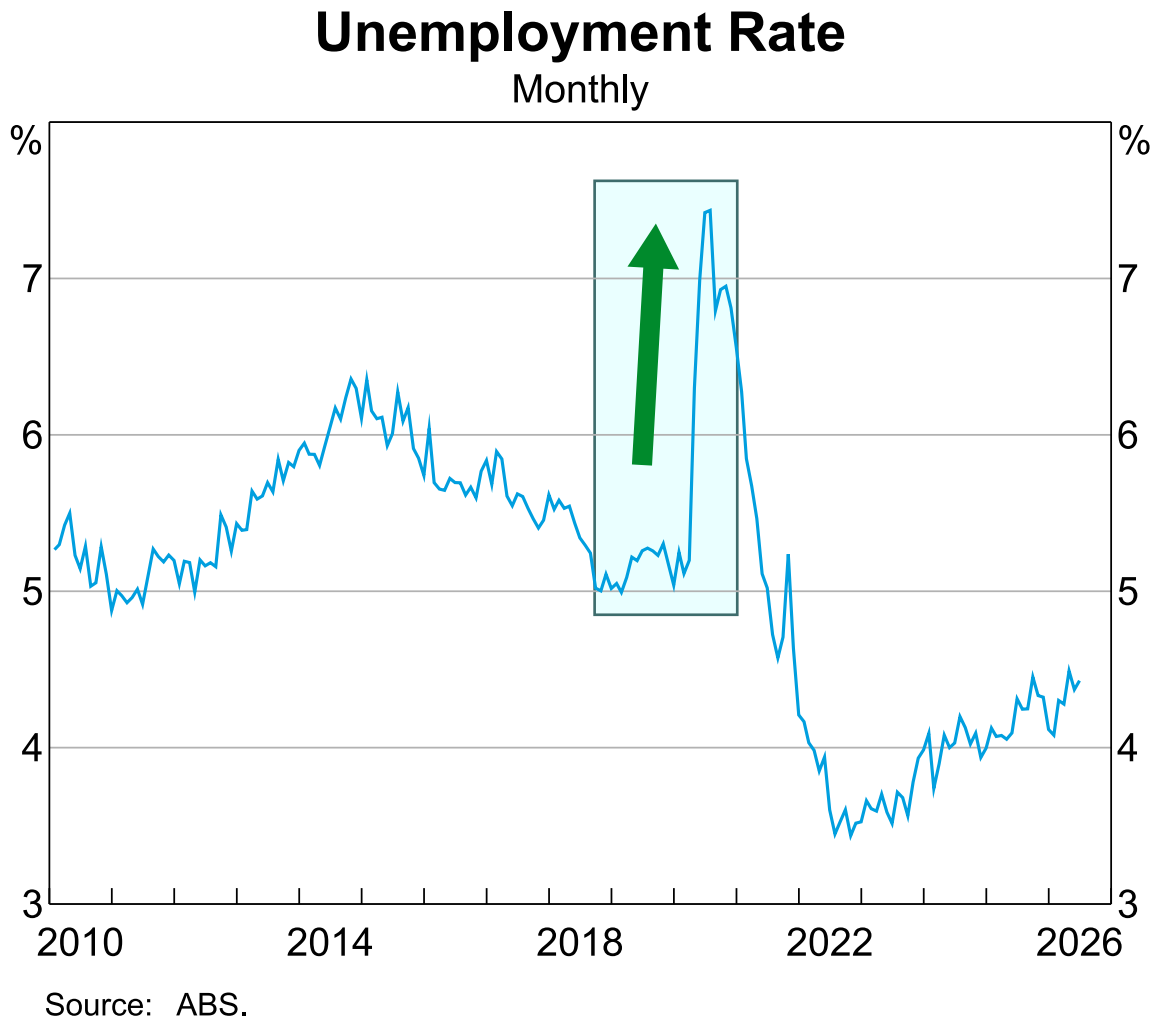
Unemployment Rate

- The unemployment rate rose sharply during the pandemic



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Unemployment Rate

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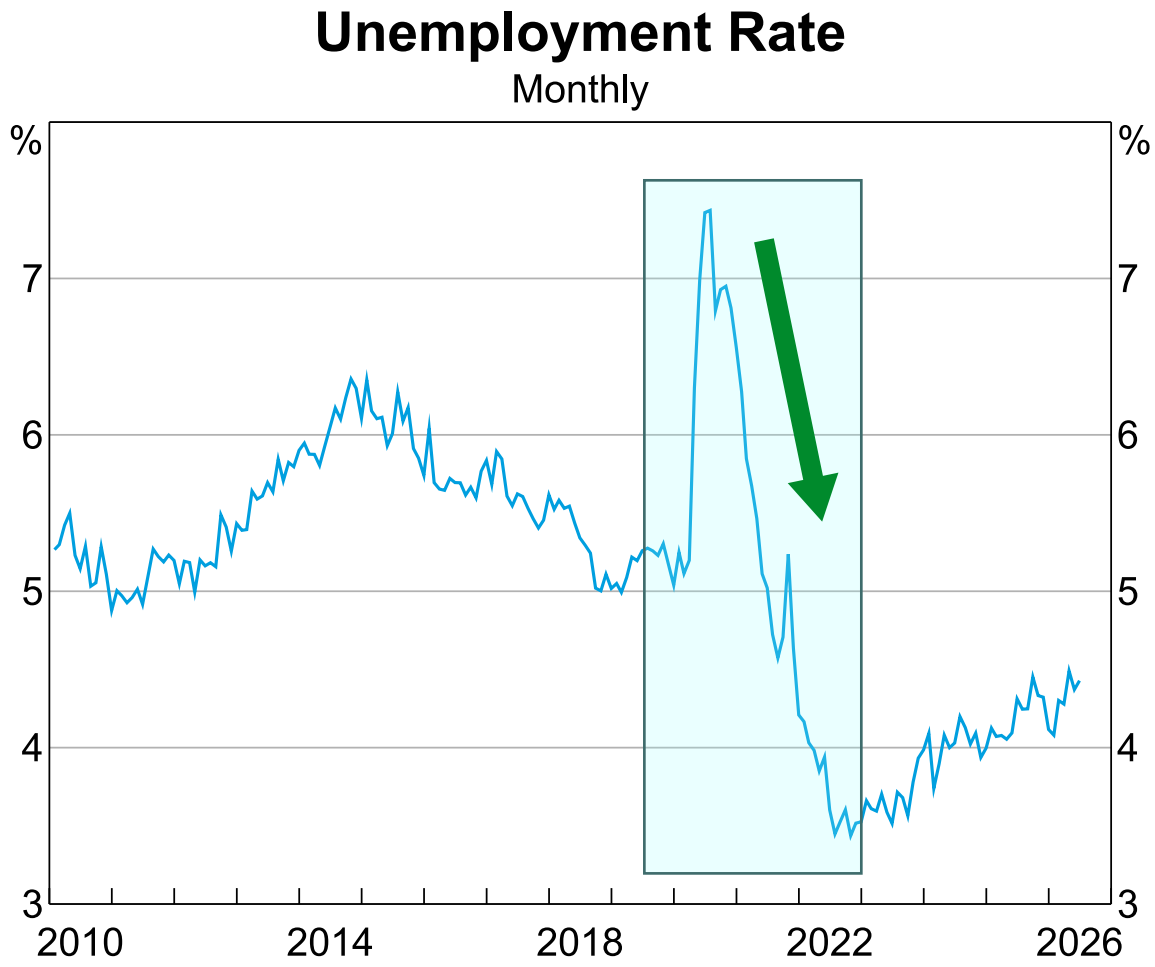
- The unemployment rate fell rapidly as the economy reopened



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Unemployment Rate

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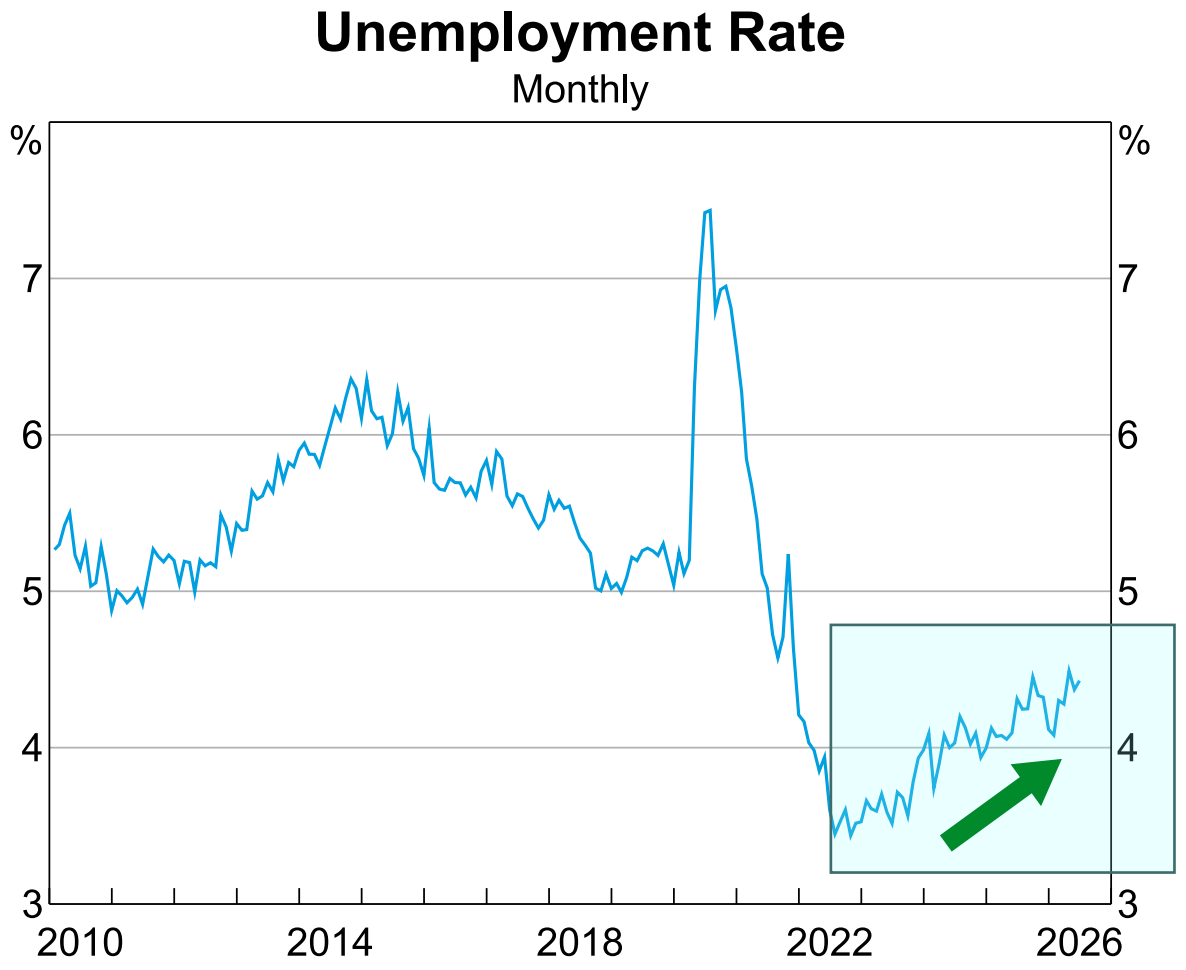
- The unemployment rate has increased slightly in recent years…



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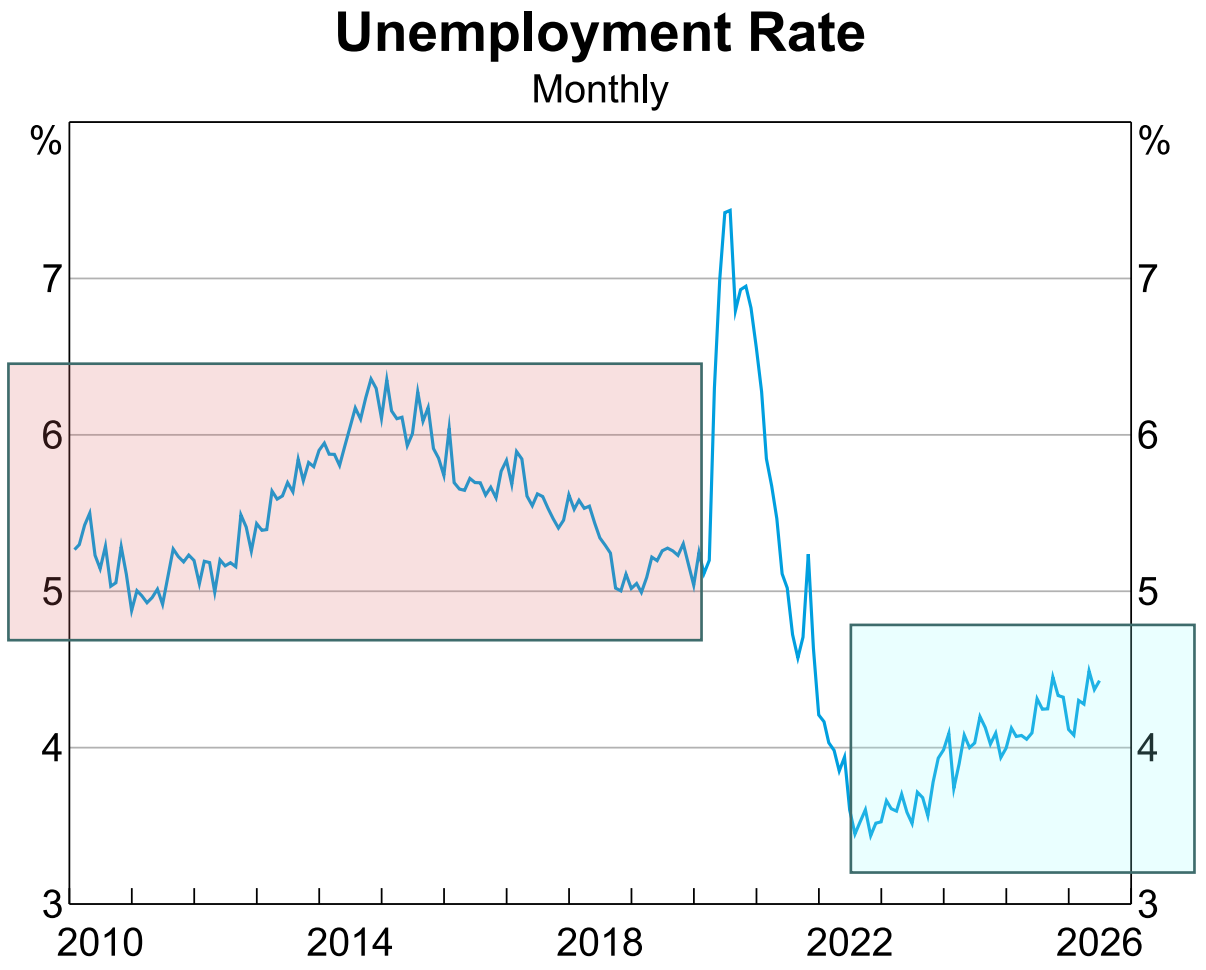
- The unemployment rate has increased slightly in recent years… but is low compared to history



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Unemployment Rate

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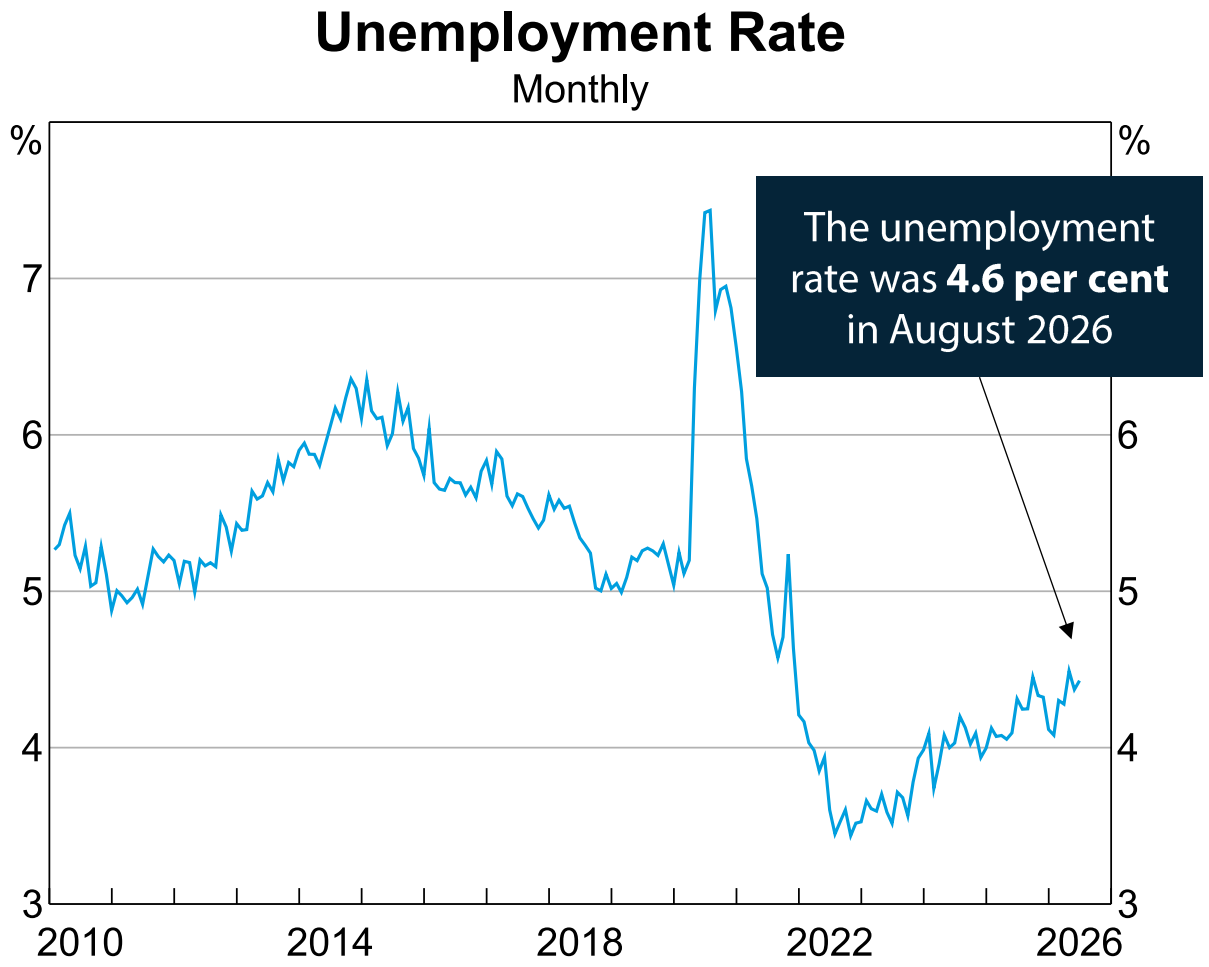
- Other labour market indicators suggest there is still some tightness in the labour market



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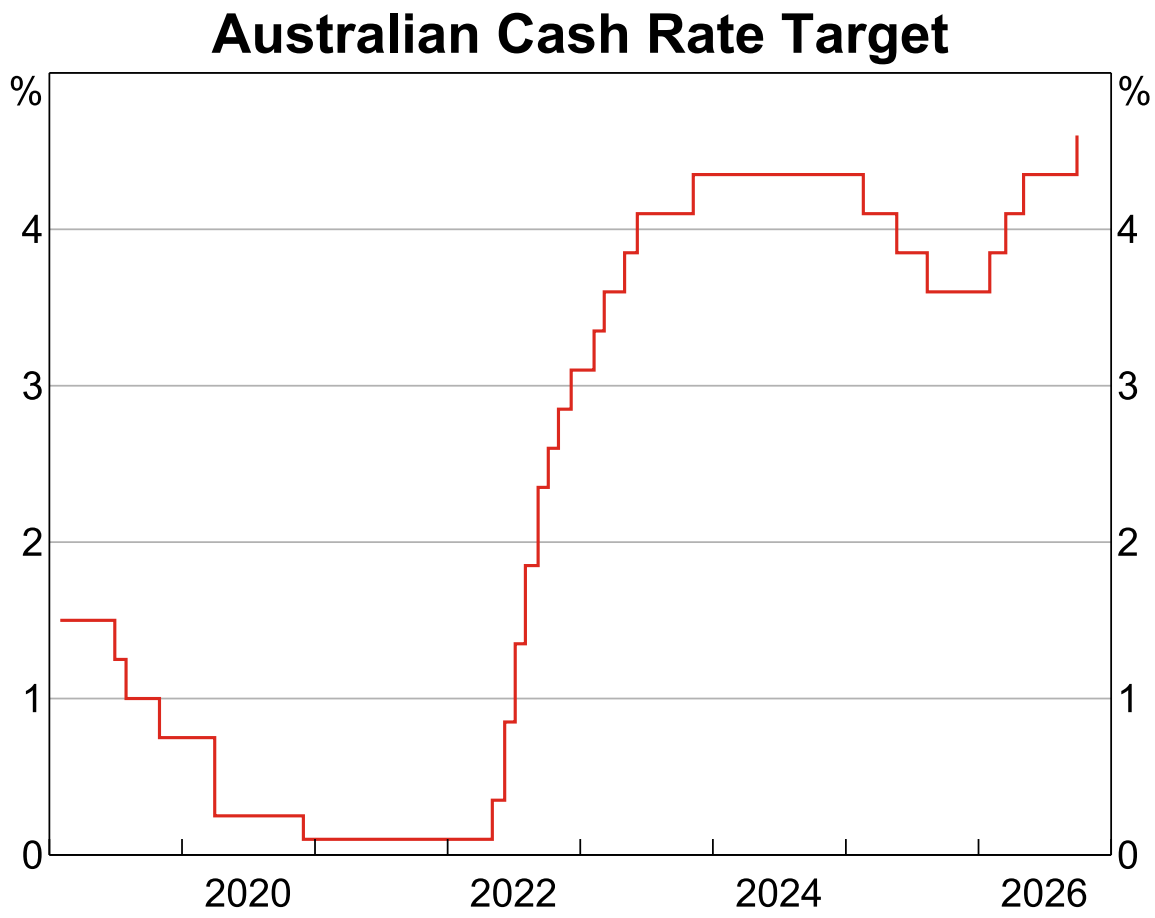
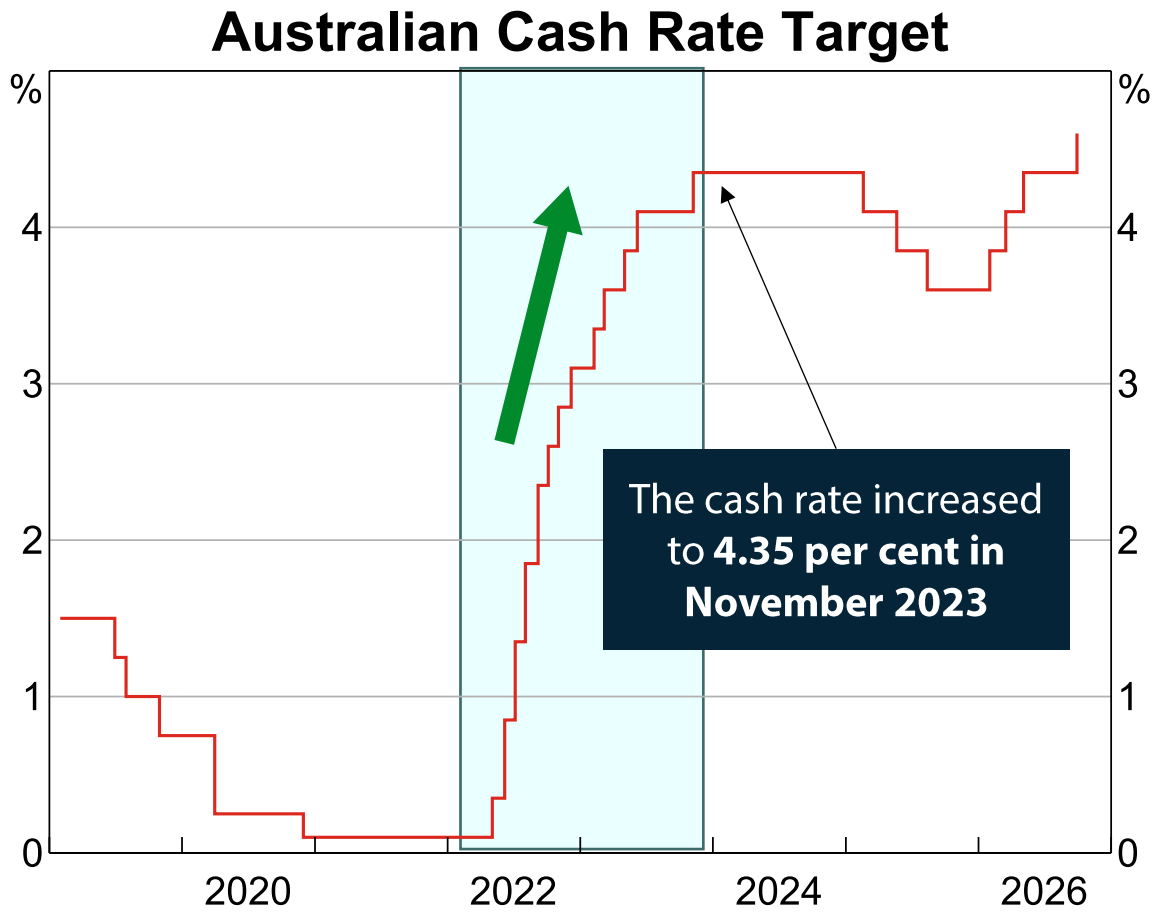
Cash Rate



Source: RBA.

Cash Rate

- The Monetary Policy Board raised the cash rate rapidly after the pandemic to tackle high inflation



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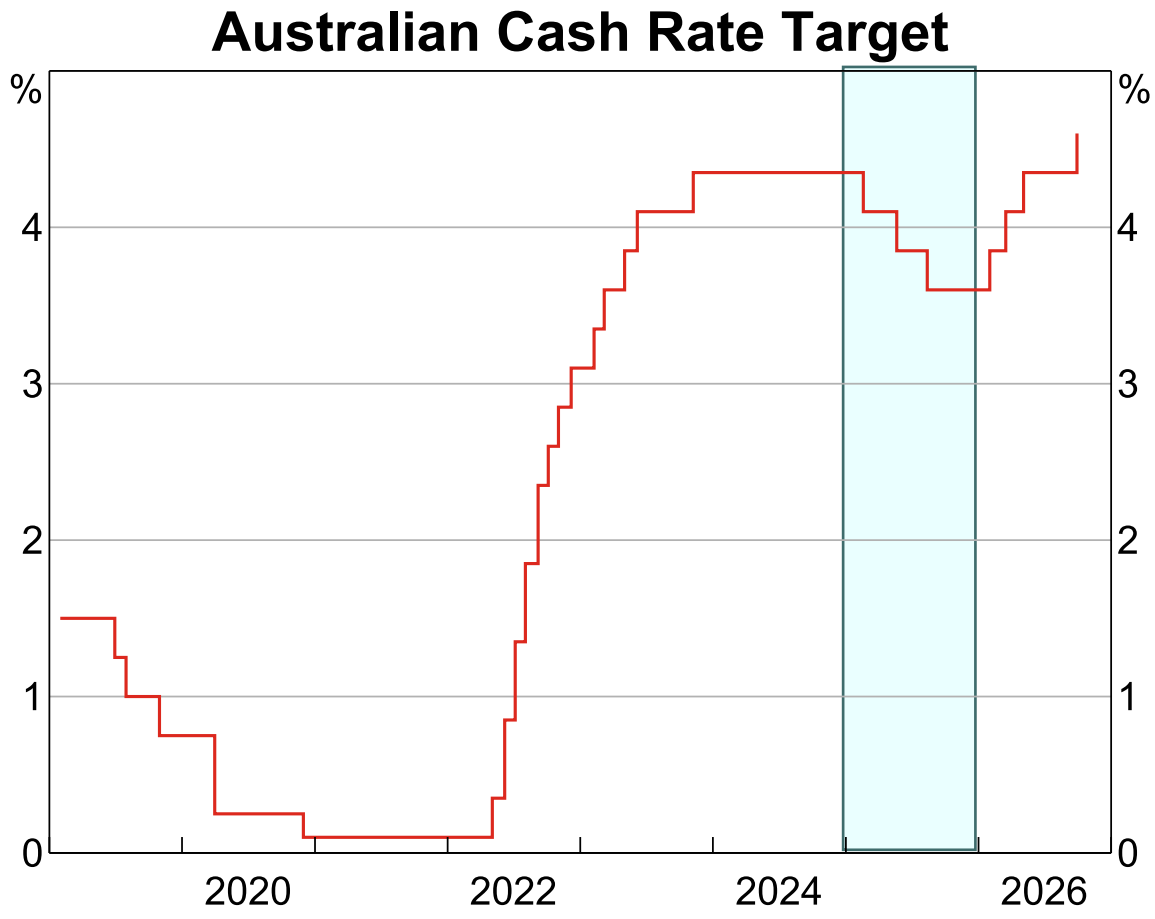
- The Board lowered the cash rate throughout 2025 as inflation returned to the target band



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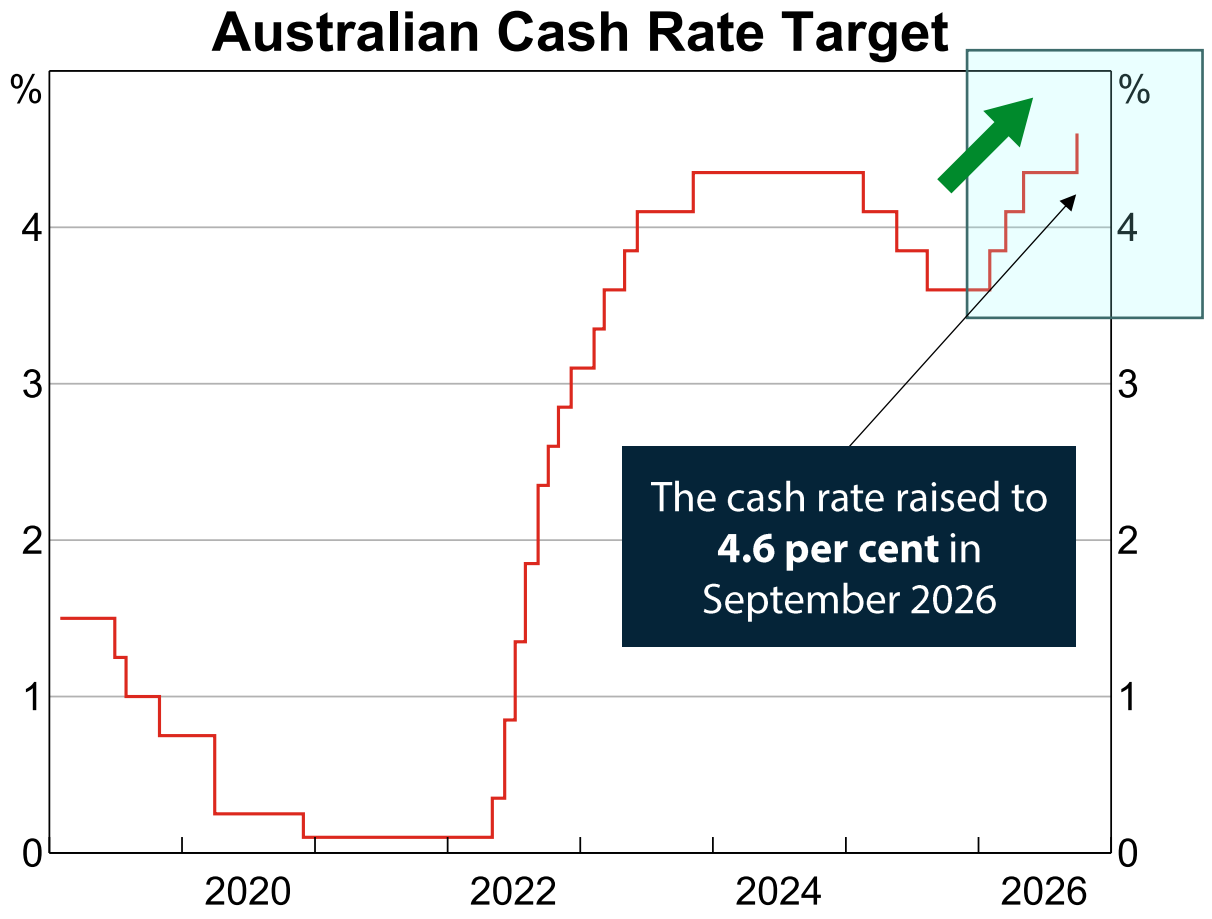
- The Monetary Policy Board has raised the cash rate four times since the start of the year



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- The Board lowered the cash rate throughout 2025 as inflation returned to the target band
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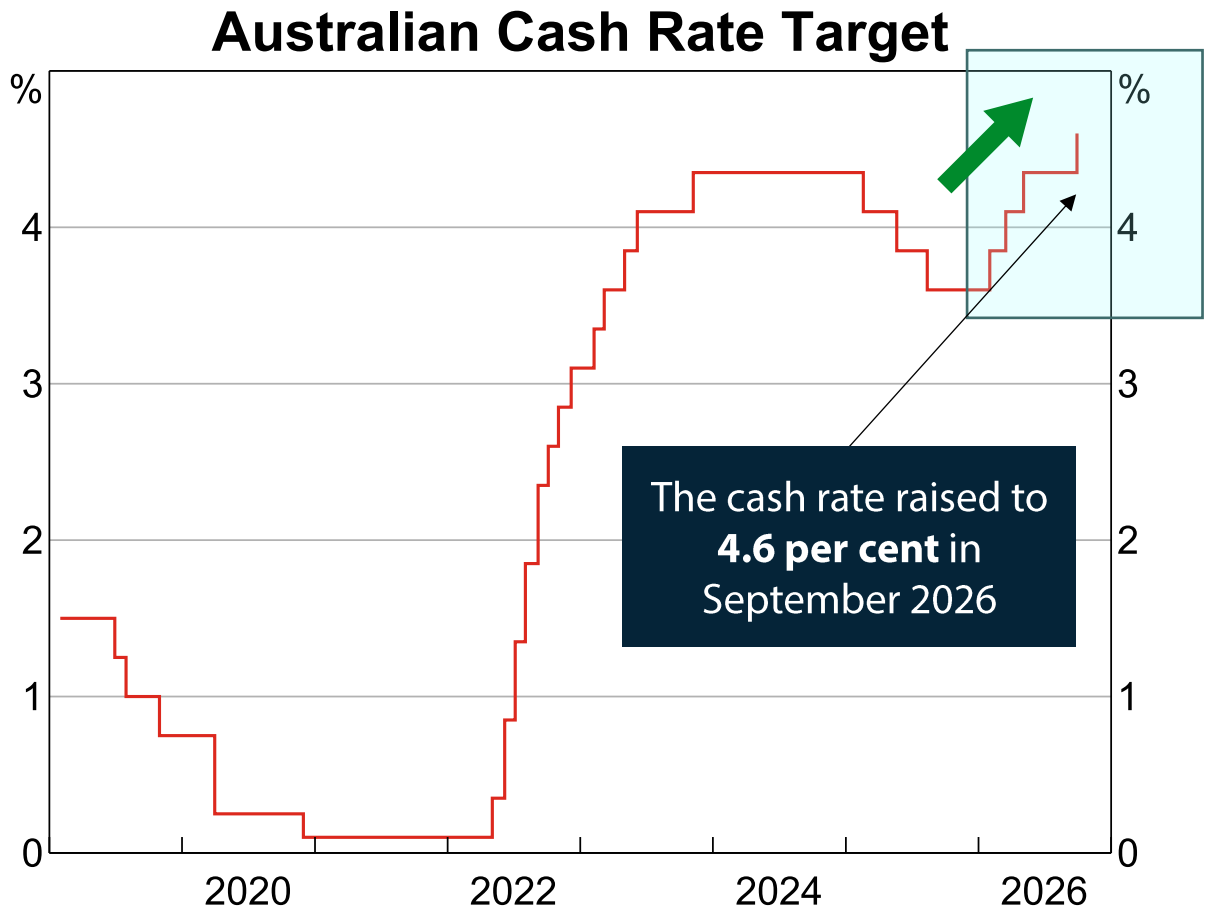
- Inflation remains too high and the Board remain focused on returning it to target



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Summary

2020: COVID Pandemic

- Annual GDP **fell 5.8 per cent** in June quarter 2020
- Headline inflation was **-0.3 per cent** in June quarter 2020
- Unemployment rate rose to **7.4 per cent** in June 2020
- Cash rate fell to **0.1 per cent** in November 2020

2021-2023: Borders reopened and high inflation

- Annual GDP growth was **10.2 per cent** in June quarter 2021
- Headline inflation was **7.9 per cent** in December quarter 2022
- Unemployment rate fell to **3.4 per cent** in October 2022
- Cash rate rose to **4.35 per cent** in November 2023

2024-2025: Economic activity and inflation slowed

- Annual GDP growth was **0.8 per cent** in September 2024
- Headline inflation fell to **2.1 per cent** in June quarter 2025
- Unemployment rate rose to **4.1 per cent** in December 2025
- Cash rate cut three times in 2025 to **3.6 per cent**

2026: Domestic demand and higher oil prices

- Annual GDP growth was **2.1 per cent** in June quarter 2026
- Headline inflation was **3.9 per cent** in June quarter 2026
- Unemployment rate was **4.6 per cent** in August 2026
- Cash rate raised four times in 2026 to **4.6 per cent**

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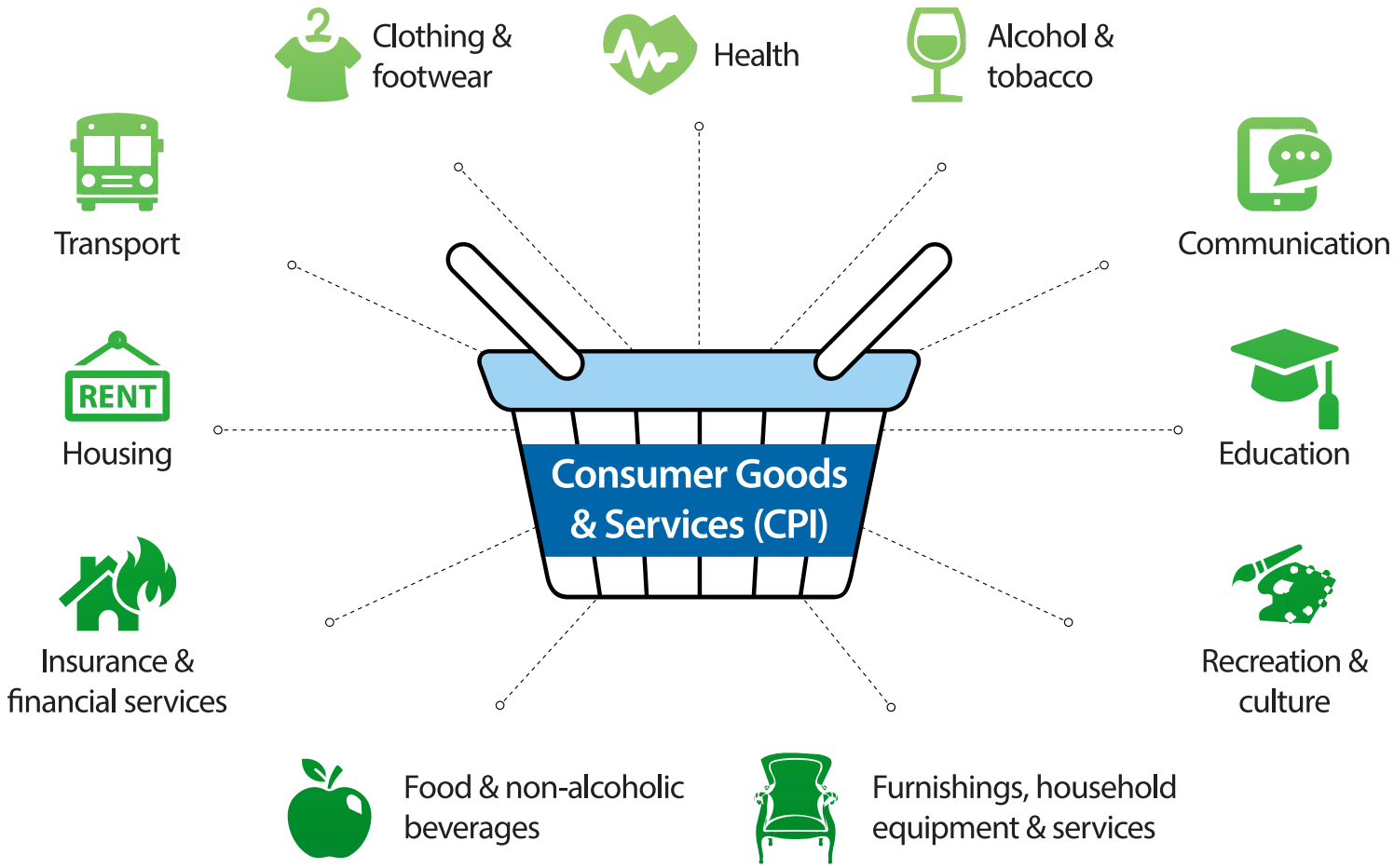
2

Q&A

Why do higher oil prices make inflation go up?

Higher oil prices directly increase the price of fuel



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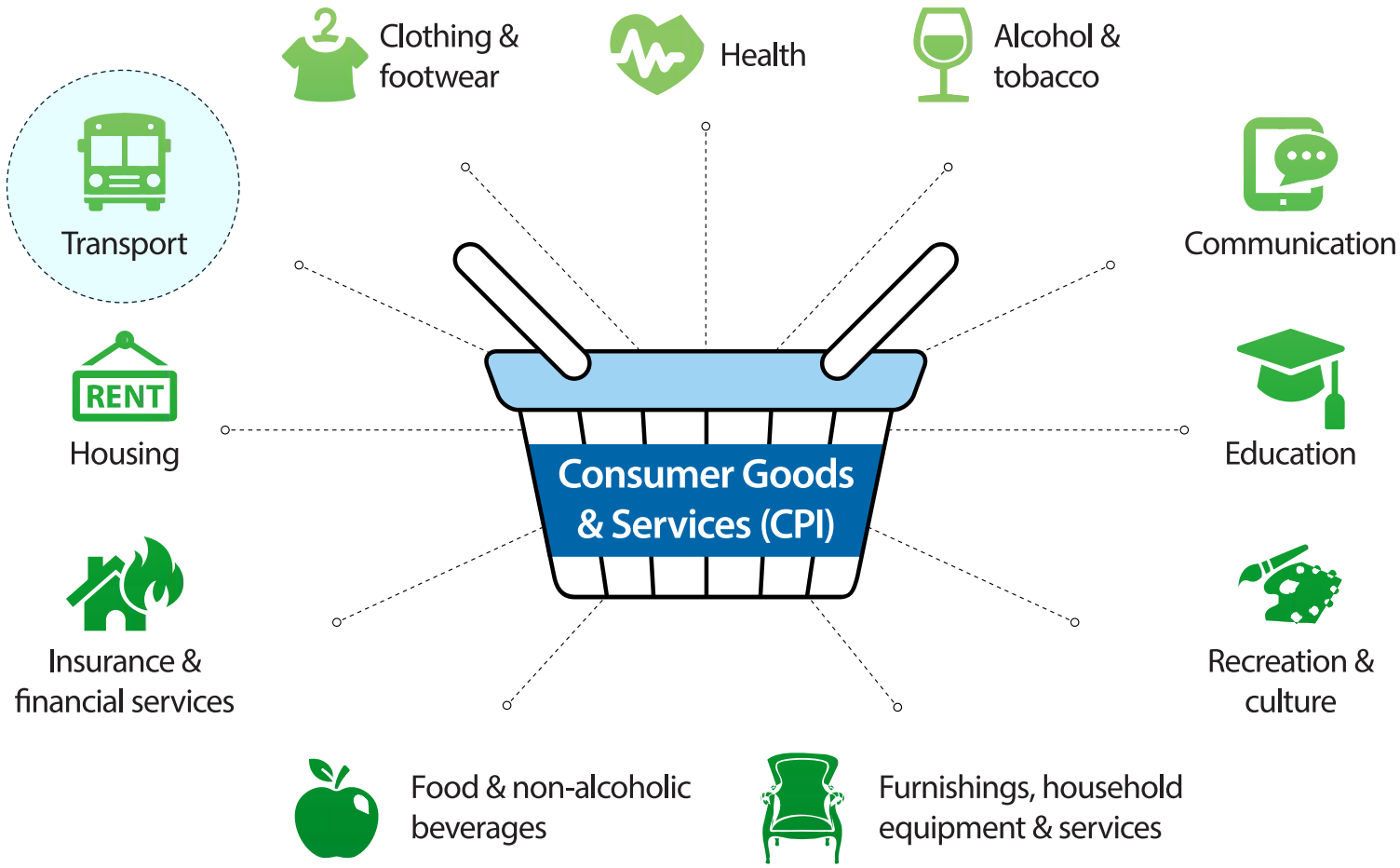


Higher oil prices increase production costs for businesses that use fuel



Oil prices
increase

Higher oil prices increase production costs for businesses that use fuel





Oil prices increase → **Production costs** increase

Higher oil prices increase production costs for businesses that use fuel



Oil prices increase → **Production costs** increase → **Businesses increase prices**

Example: Strawberry farm

- Farmers use fuel to run tractors and harvest strawberries
- Trucks use fuel to transport strawberries to supermarkets
- Higher oil prices increase the cost of growing and transporting strawberries
- To cover these higher costs, the farm may raise strawberry prices

This is an example of cost-push inflation

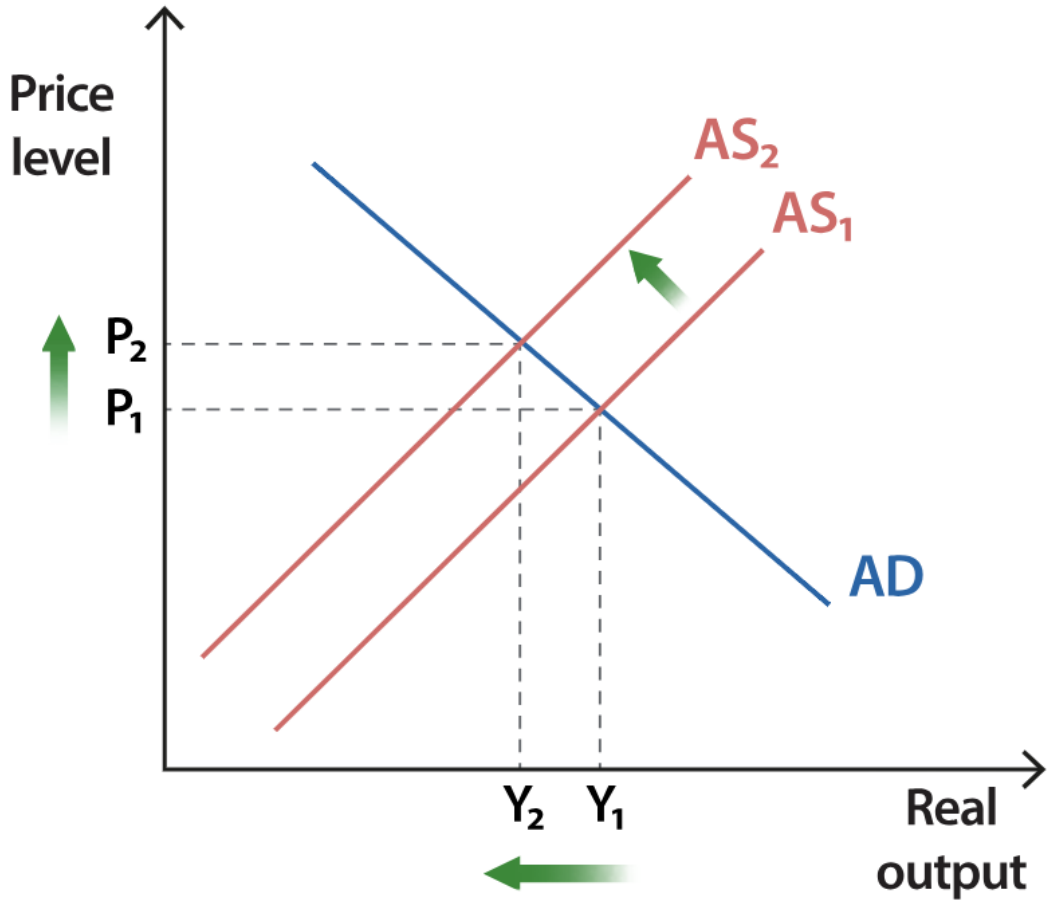




Impact of a supply shock

- **Aggregate Demand:**
  Refers to total spending in the economy

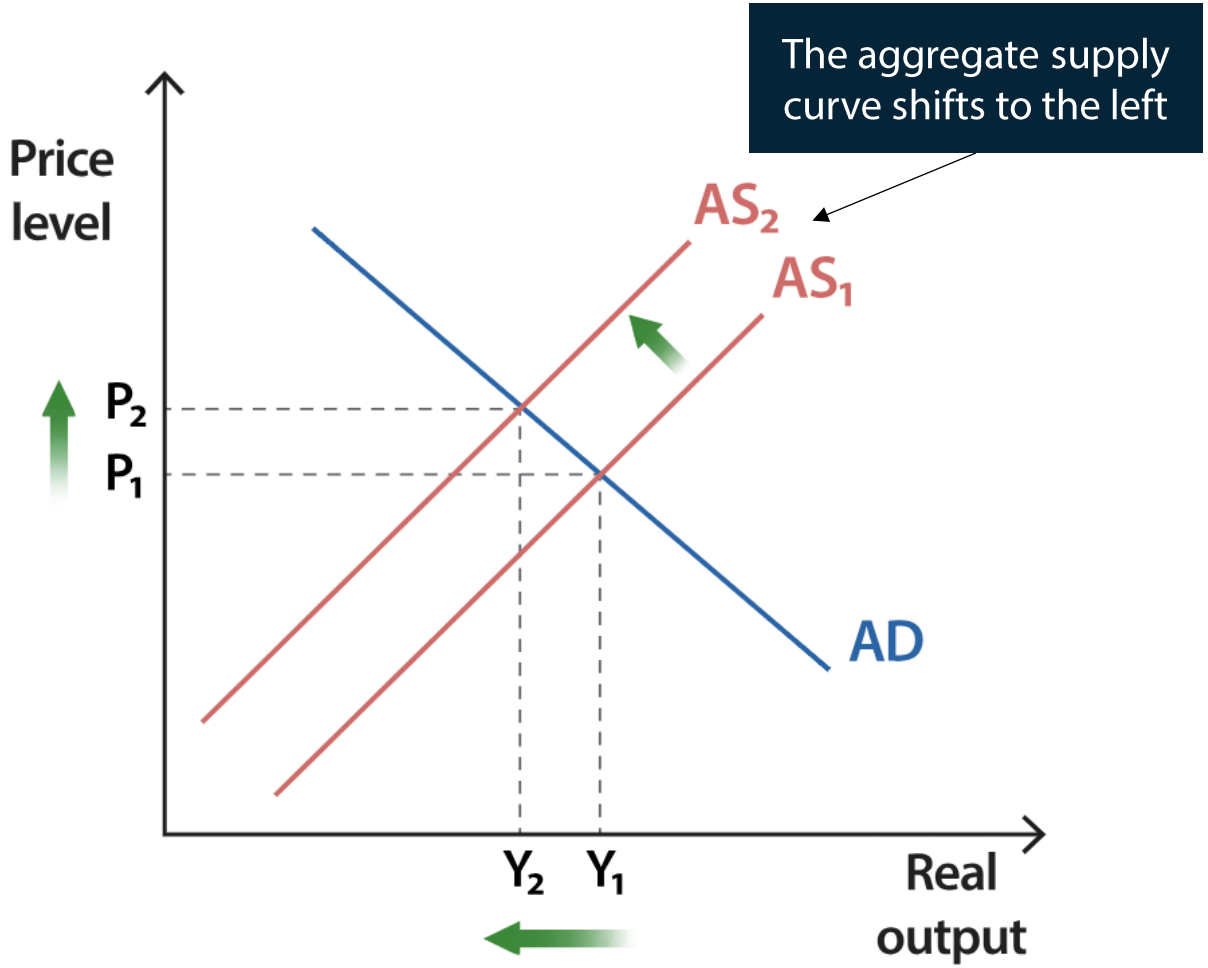
- **Aggregate Supply:**
  Refers to the economy's productive capacity



Impact of a supply shock

An increase in oil prices leads to:

- Increase in fuel prices
- Increase in production costs
- Decrease in aggregate supply



Impact of a supply shock

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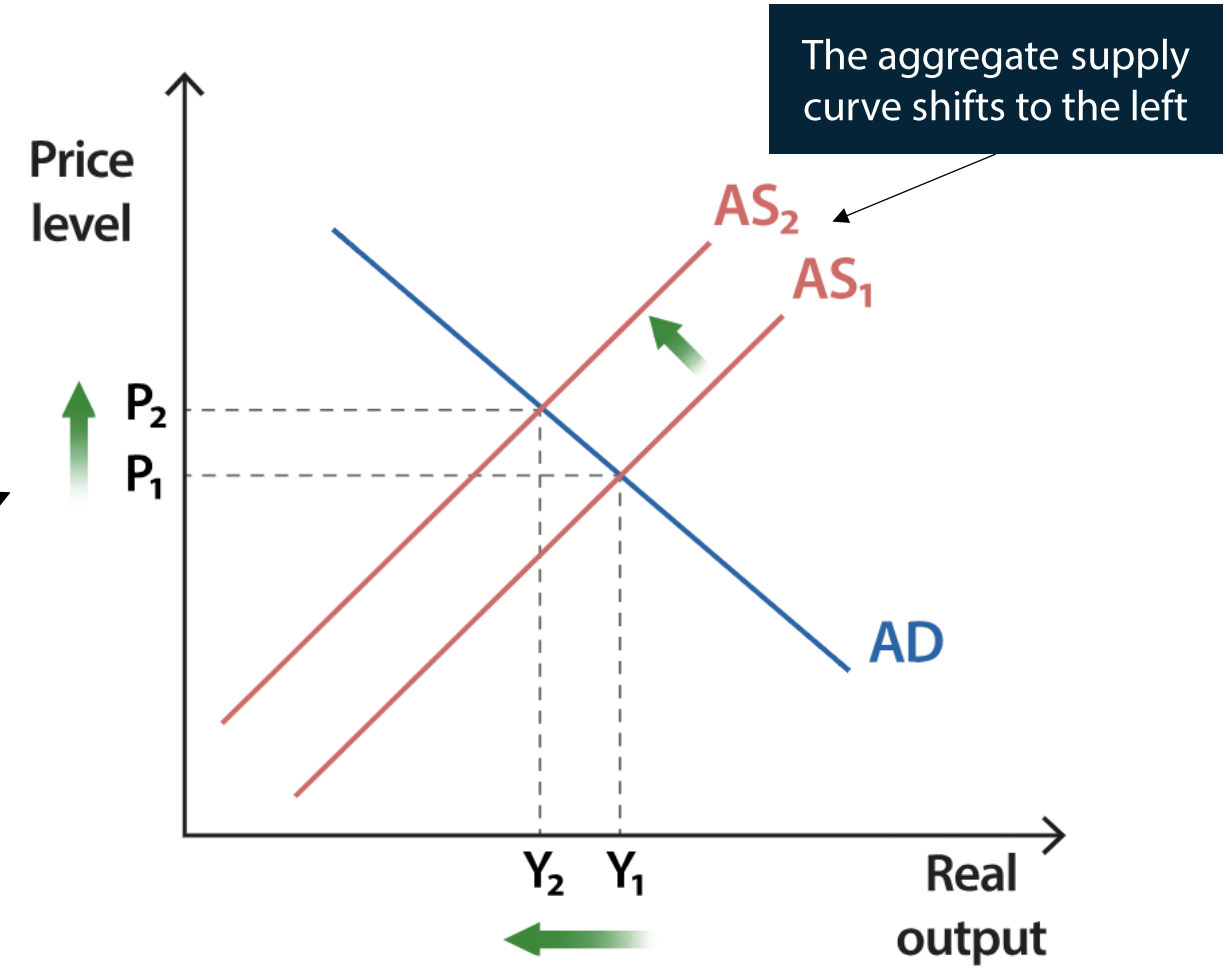
Upward pressure on prices



How does the RBA deal with cost-push inflation caused by supply shocks?

Monetary policy is a demand management tool

- When inflation is driven by very strong demand, the response is relatively straightforward.

- Higher interest rates can slow demand in the economy and help bring down inflation.

But supply shocks are more complicated

- A supply shock makes it more difficult or expensive to produce goods and services.
- Supply-side shocks can push up inflation and slow economic activity at the same time.
- The RBA focuses on making sure the inflationary effects don't become more widespread and persistent

How does the RBA respond to supply shocks?

- If the supply shock is expected to be **temporary**
  - The RBA may choose to 'look through' it
  - Example: Cyclone Larry in 2006



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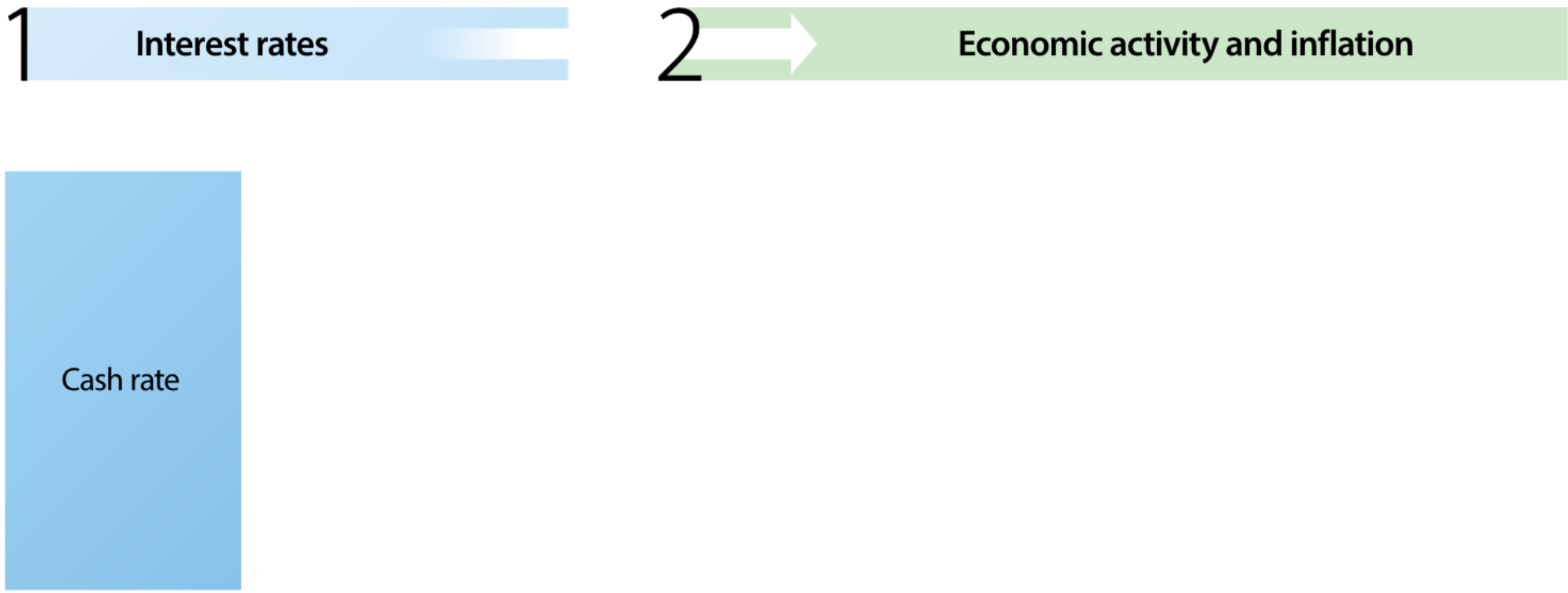
- If the supply shock is expected to be **longer-lasting** and **affect a wide range of other prices**
  - The RBA may respond with higher interest rates
  - Example: Higher oil prices



Can you explain how the transmission mechanism works in the economy?

The transmission of monetary policy



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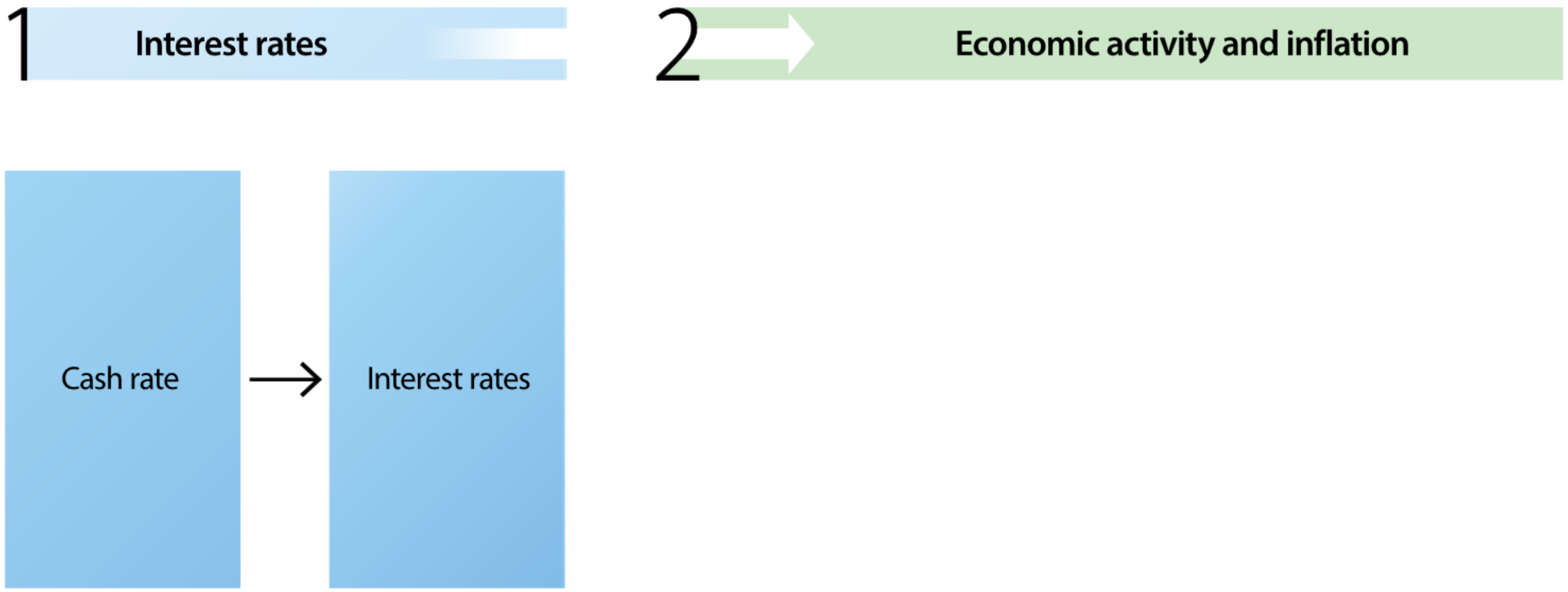

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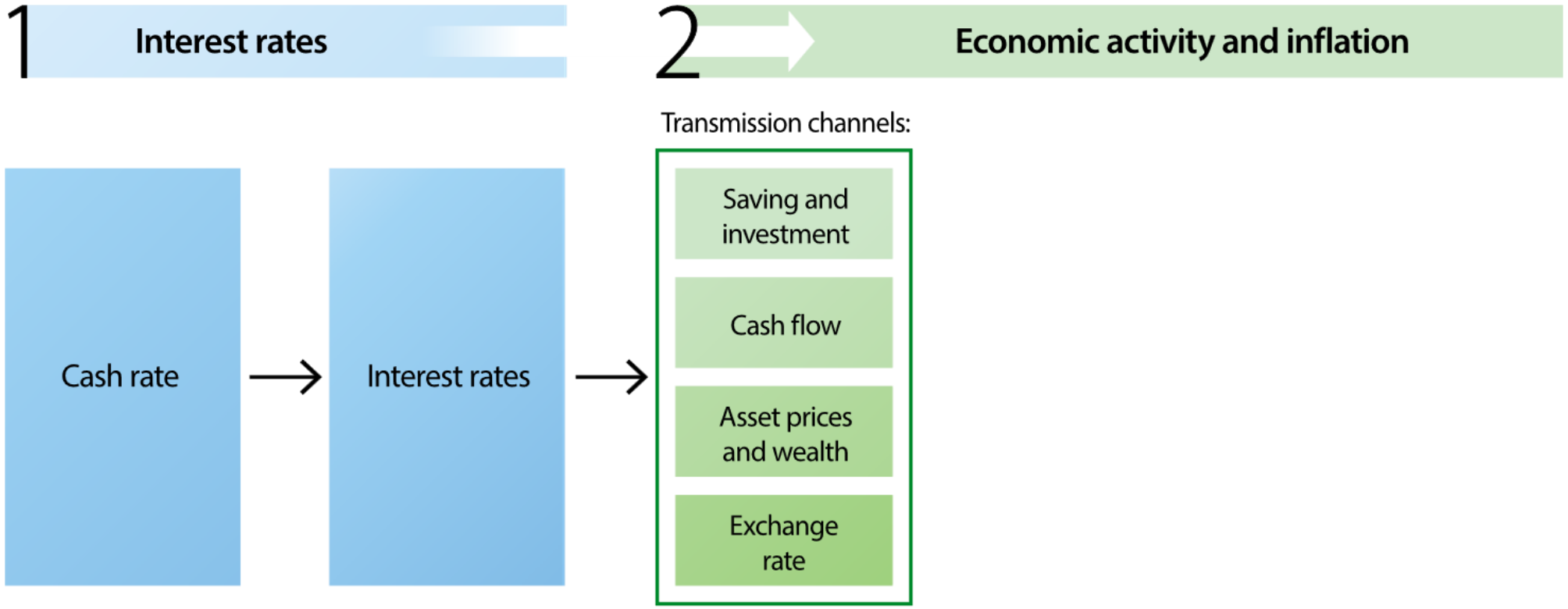

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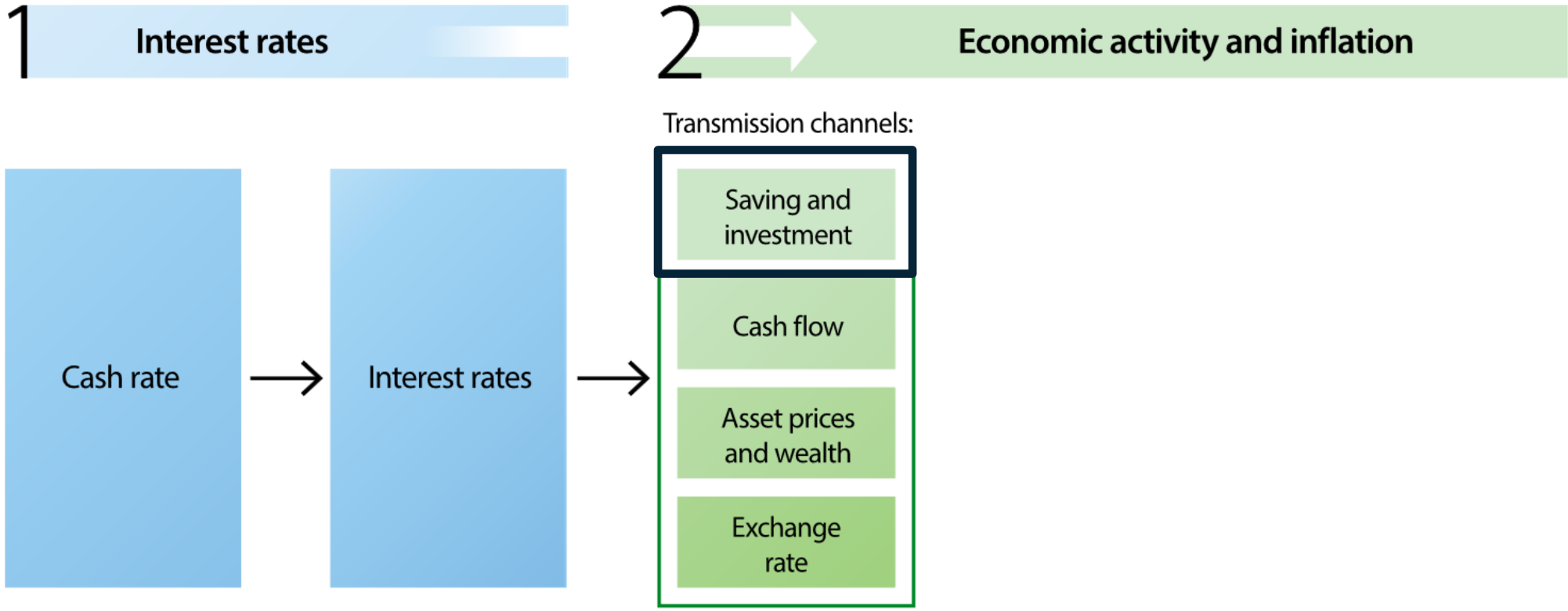

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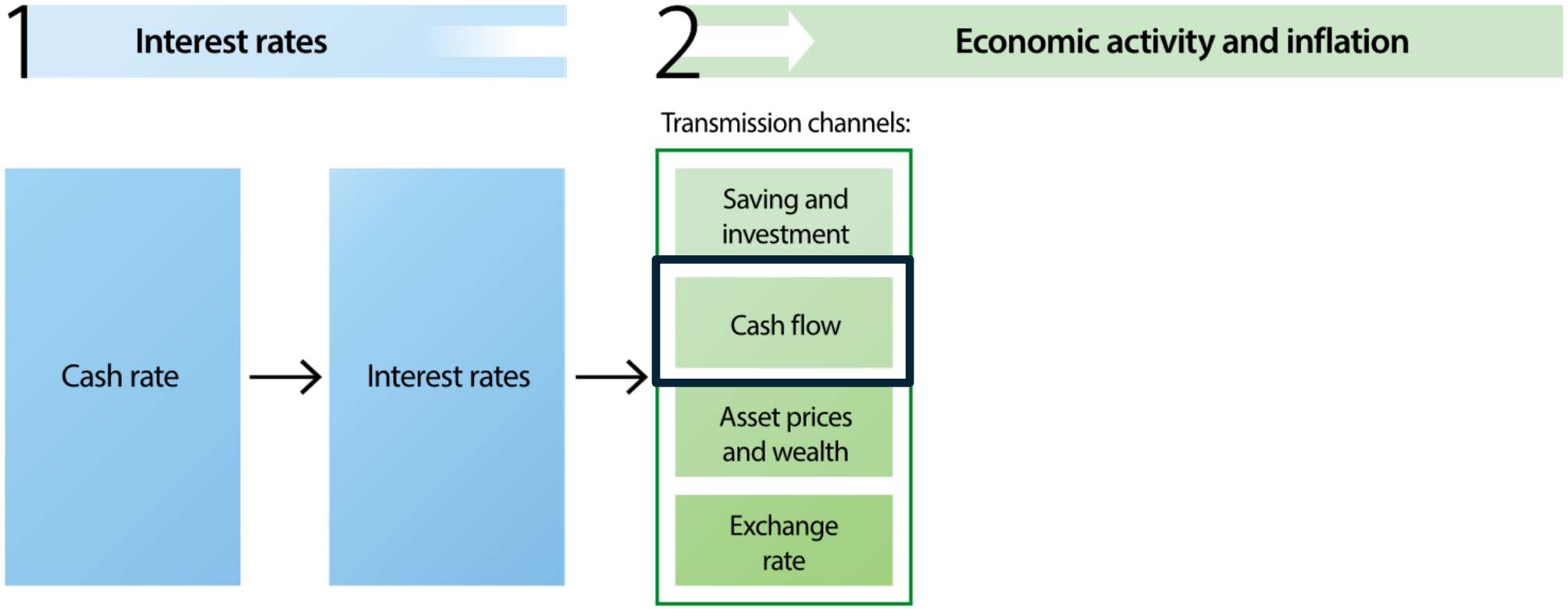

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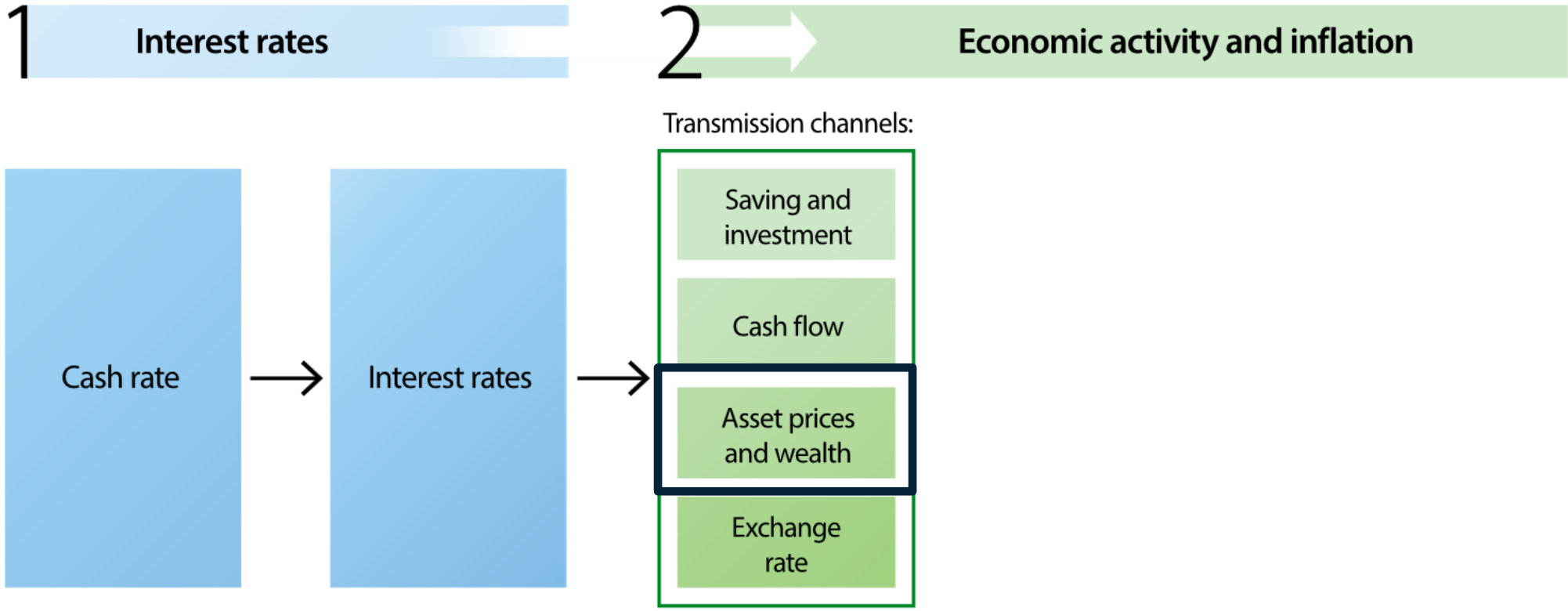

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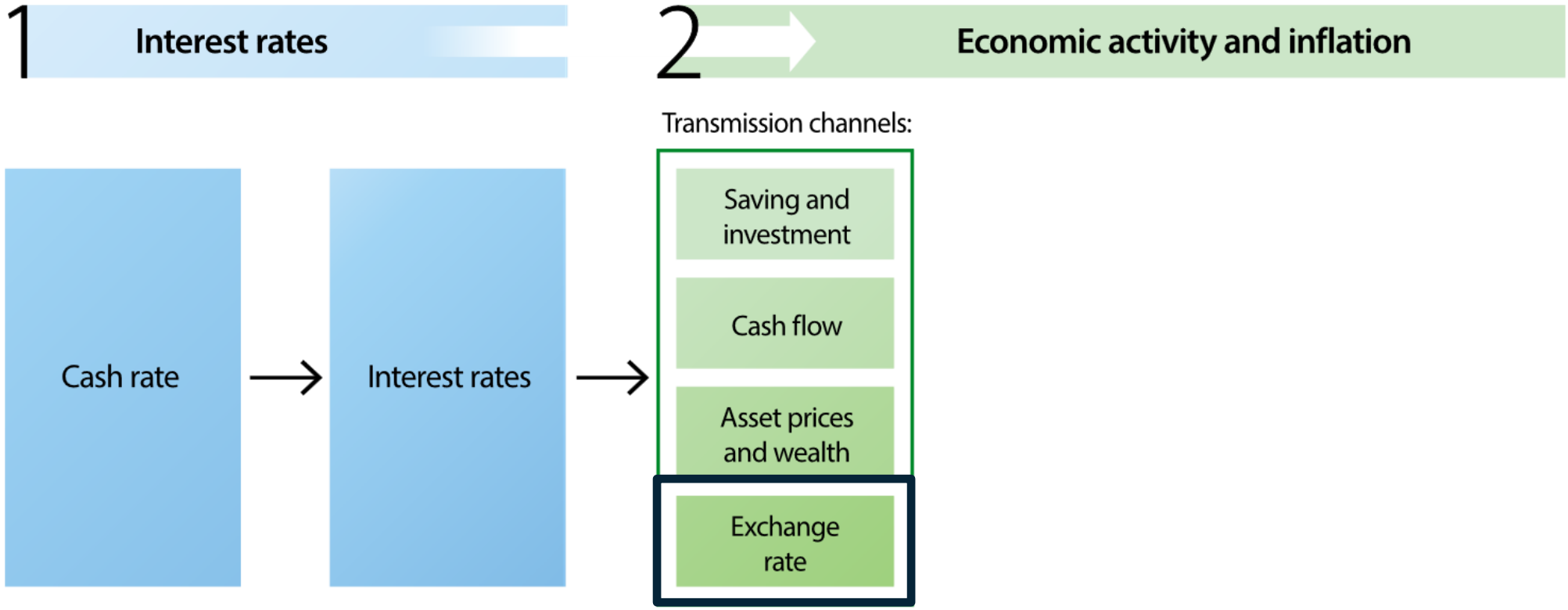

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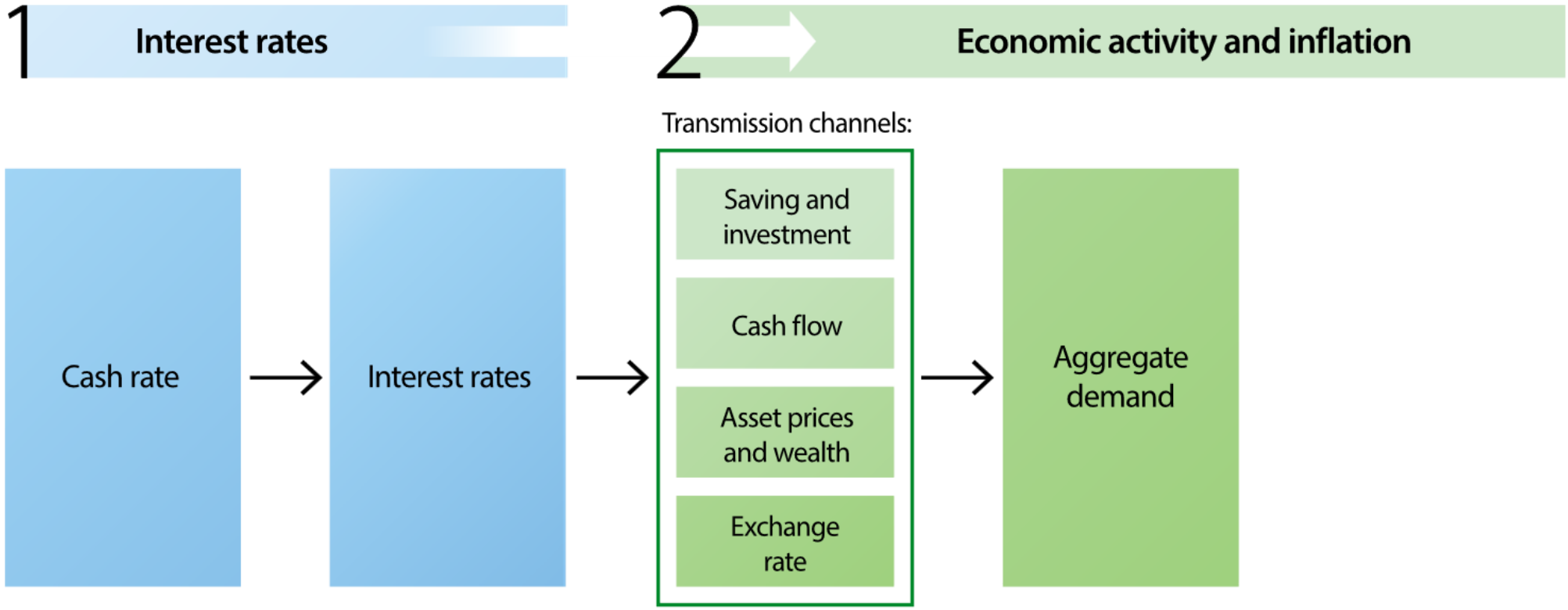

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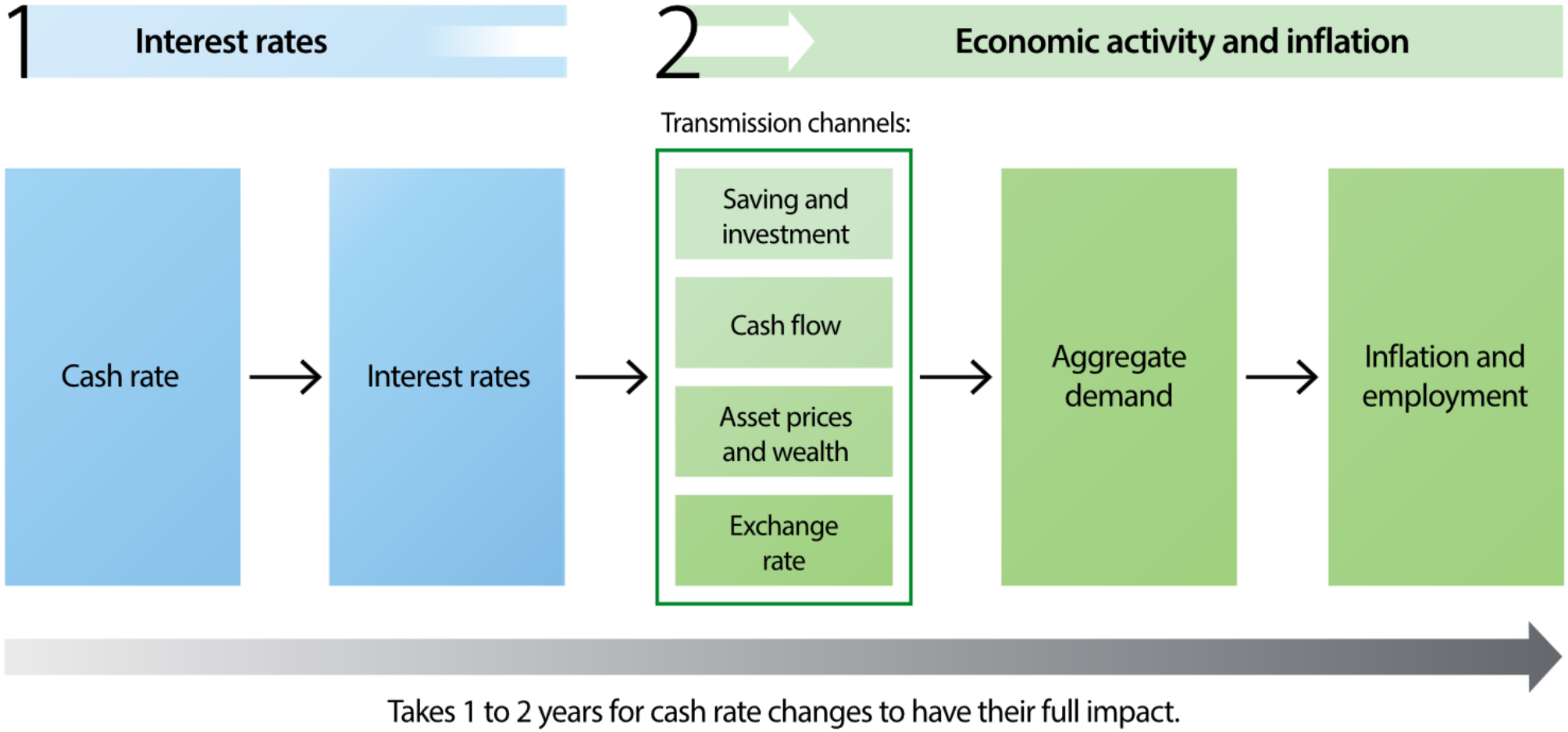

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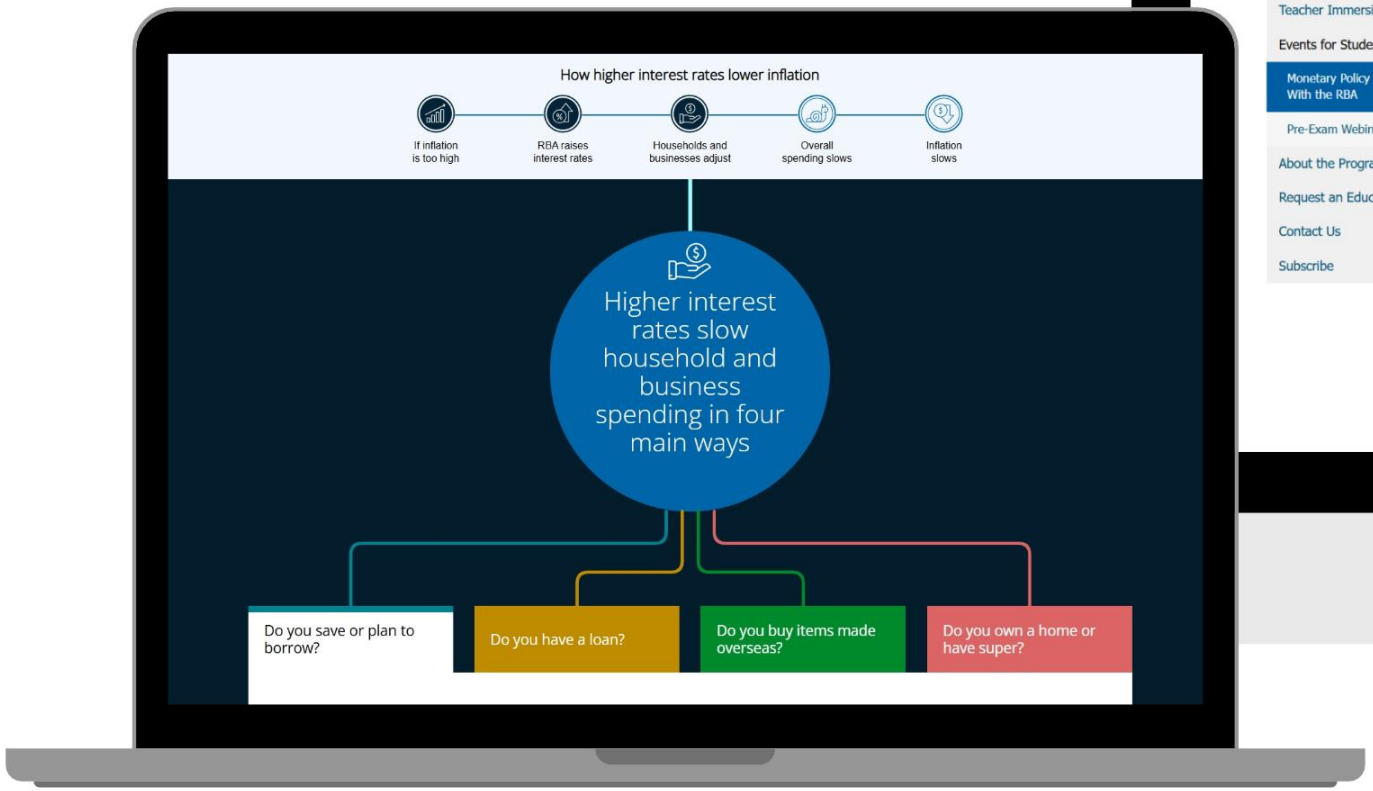
Resources on monetary policy transmission

www.rba.gov.au/interest-rates-explained



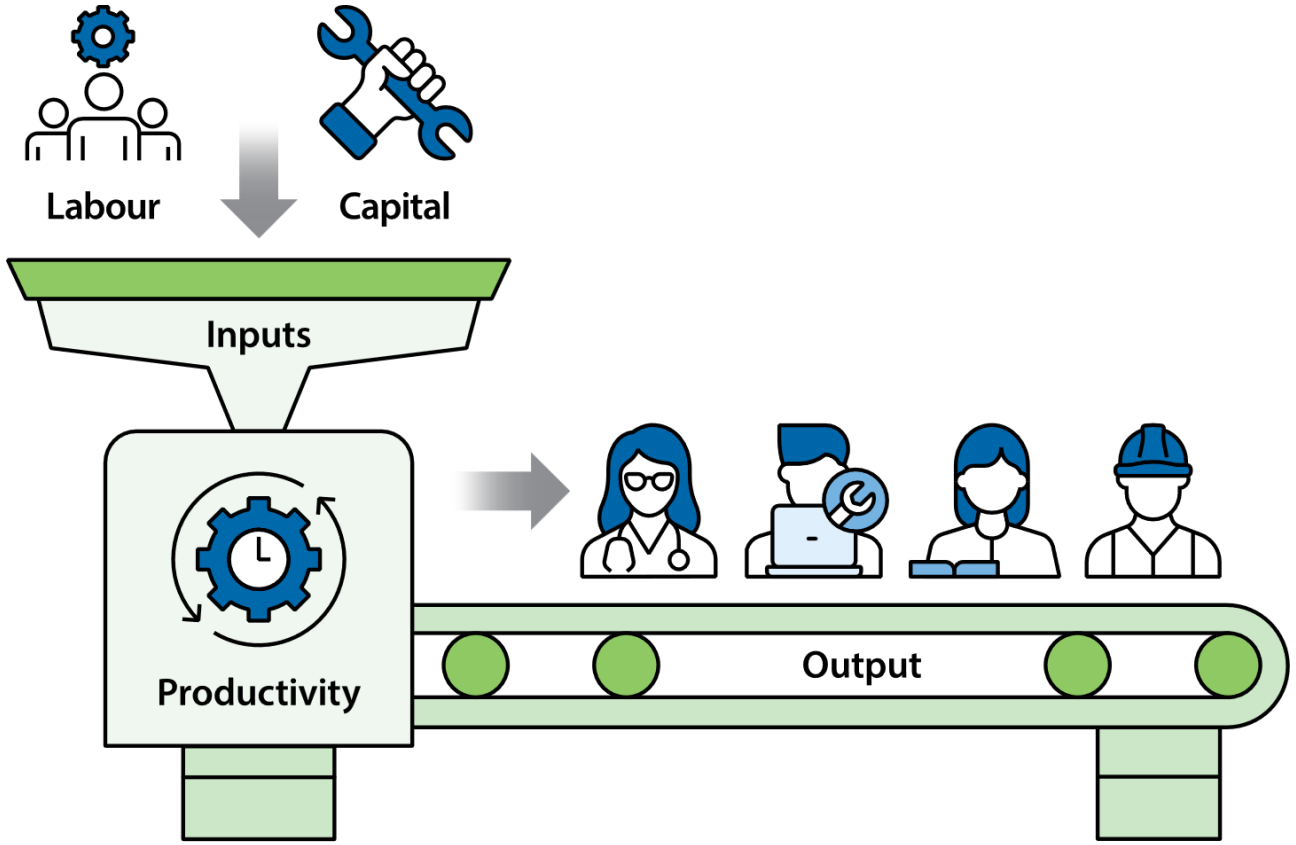
www.rba.gov.au/education/special-events-students/monetary-policy-unpacked.html



How important is productivity growth and should Australia be concerned about it?

How important is productivity growth?

- Productivity refers to how much output can be produced with a given set of inputs.



How important is productivity growth?

- Productivity refers to how much output can be produced with a given set of inputs.
- Why does productivity matter?
  - Productivity growth drives improvement in people's living standards.

*Number of **minutes of work** needed to purchase bread in the 1960s vs now?* →



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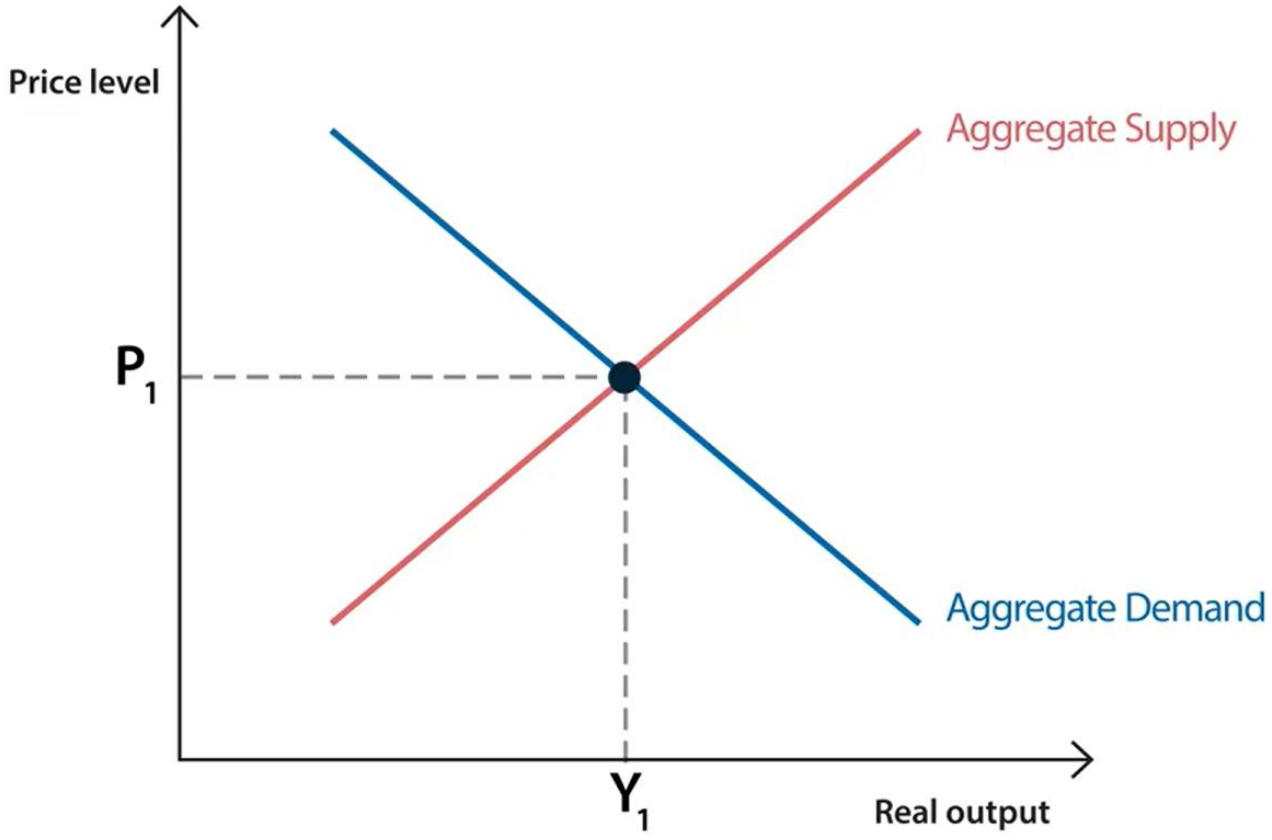
  - Productivity growth affects how fast an economy can grow without causing inflation



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- Why does productivity matter?
  - Productivity growth drives improvement in people's living standards.
  - Productivity growth affects how fast an economy can grow without causing inflation
- Australia's productivity growth has been weak in recent years
- Lifting productivity growth is important to improve living standards and the economy's productivity capacity